



Doing Business in Panama

OVERVIEW OF THE ECONOMY,
BUSINESS AND INVESTMENT
OPPORTUNITIES

2022
EDITION

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About Business Panama

The BusinessPanama Group is truly a **“One Stop Solution”**, helping foreign clients with all their needs for Doing Business and Investing in Panama.

The BusinessPanama Group, is structured into 5 different companies providing Advisory & Legal Services, Real Estate Brokers, Title & Escrow, Insurance Brokerage and Capital Investment.

In the BusinessPanama Group, we have licensed real estate agents, lawyers, insurance brokers, bankers and other professionals to assist clients in all their business needs.

One of our main partners is Pardini & Asociados, a leading Panama law firm with 40 years of tradition and experience assisting foreign clients and corporations of all sizes.

The company has headquarters in Panama.





Leadership To Succeed...

Dr. Juan Francisco Pardini is the President and CEO of the Business Panama Group and Pardini & Asociados.

Dr. Pardini's business, legal and investment expertise focuses in all Foreign Investment sectors in Panama.

In the BusinessPanama Group, he is involved with national and foreign individuals, families or corporations in all business areas requiring investment and legal services, setting up business, equity partners, capital financing and others. A team of professionals assist in all areas.



Dr. Pardini is a former President of the Panama-Canada Chamber of Commerce; former President of American Chamber of Commerce of Panama; former Chairman & CEO of the Council for Investment & Development of Panama; former President of the Inter-American Council for Commerce & Trade (CiCyP); co-founder of the US-Panama Business Council; and co-founder of the Japan-Panama Friendship Association.

Parallel to his professional practice, from 2001-2004, he was officially Extraordinary Ambassador in Special Mission for Free Trade Matters of the Republic of Panama.

He also devotes time as member of the Board of Directors of several Panamanian and multinational corporations.



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P A N A M A
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For individual or companies pursuing business & investment opportunities, legal services, real estate, immigration, raising capital or finding reliable partner in Panama

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Plaza 2000 Tower, 10th Floor, 50th Street, Panama City, Panama Email: inquiries@businesspanama.com Tel: (+507) 223-6788

Panama at a Glance

Political

- Transparent elections since 1990
- Smooth transition of power every 5 years.
- Long tradition of openness to foreign investments.
- Structural adjustments to economy proven positive.
- Bureaucracy reduced, but still a major factor.

Financial

- No exchange or currency restrictions.
- Panama's debt is ranked "Investment Grade", only 3 countries in LatAm have this status.
- Moody's confirmed a Baa2 Stable Outlook rating for Panama
- An economic landscape of friendliness toward foreign investment with healthy and rigorous trade agreements i.e. The Investment. Stability Law, the Free Trade Agreements, and Bilateral Investment Agreements (BITs).

Legal

- No restriction on 100% foreign owned real estate.
- BITs with multiple countries securing against expropriation and other risks.
- One of the most flexible corporation laws in the world.
- No restrictions on mergers, acquisitions or joint ventures.
- Enforcement of foreign judgments and arbitral awards.
- Generous tax incentives for relocating headquarters of multinationals.

Tax

Depending on the Investment Sector, these are the Tax Incentives:

- Exemption or discount from income tax.
- Exemption from import tax on equipment and raw materials.
- Exemption from income tax for creditors/banks.
- Accelerated loss carry-forward.
- Accelerated depreciation.
- No foreign exchange risks.
- Absence of exchange controls.
- No restrictions on companies' ownership and foreign capital

Highlights

PANAMA HIGHLIGHTS



1st Retirement Destination in 2022, according to International Living Annual Global Retirement Index. It is the 11th time Panama takes pole position in IL's Annual Global Retirement Index



3rd position in the ranking of Latin American nations at the category Business Opportunities, according to the index published by the Milken Institute.



6th most competitive country in Latin America, according to the World Economic Forum.



177 multinationals have relocated their Latin American headquarters to Panama. More than **20 countries**, have signed Free Trade Agreements with Panama, including USA.



On **October 2021**, the Panama Canal was recognized as one of the most admired companies in the region, according to a survey conducted by the magazine Strategy and Business.

A Nation of Hubs and Clusters

Panama has consistently been ranked one of the fastest growing economies in LatAm in recent years and unlike some of its counterparts, the country has been remarkably resilient to global headwinds. After being hammered by the COVID pandemic, the country is jumping back to growth plus for 2021-22.

The new government wants to leverage the country's existing strong logistics hubs and create five new hubs in aviation, business and services, value-added manufacturing, digital and talent.

Panama is already the Hub of the Americas because of the interconnectivity created by COPA as well as an array of other airlines including United, Lufthansa, Iberia, Air Europa and 20 others make possible for 9,242,158 million passengers to transit thru Panama to connect to multiple destinations. Now the target is cargo.

Panama has great potential in shared services because dollarization and political stability allow investors to make long-term plans while our multinational headquarters law provides strong incentives for firms setting up in Panama. People need to realize that when you set up in Panama you are not serving a local market of 4 million people but you have t access to all of Latin America and its 700 million consumers”.

Another target area is value-added manufacturing. There is a big opportunity for medicines and technology. We have 23 trade agreements in place with the biggest economies in the world.

Perhaps Panama's most ambitious aim is to create a digital hub. The country already has the necessary building blocks. Along the strip of land that borders the Canal, pass 7 of the most important fiber optic cables in the continent. Panama has given data further legal security with a data privacy law that is ranked among the top ten in the world. That's why Google is now connecting to our digital hub.

These are ambitious but realistic aims, in emerging sectors where Panama has the potential to make an impact. None of them are mass-producing industries that need of scale or huge, low-cost workforces. However, they are hypercompetitive businesses that need high-quality human talent – so Panama will need to train people.

Panama creates lots of exciting new human talent each year. For the size of our economy, we add enough new workers every year to keep GDP expanding at an annual rate of 5%. But we realize that it's not just about creating a certain quantity of graduates. We need to do a better job of measuring what type of talent is being created and ensuring that matches well with what is needed.



The government is under no illusions about the scale of the education task, but he notes that the administration has some achievable targets that should make a quick impact.

Japanese companies, such as NTT, have 350 local workers in their shared services center, which operates 24/7, 365 days a year. Dell has 2,000 employees and Quest, just hired 200 people here.

“Changing the whole education system will take 20 years but you needed to start somewhere, so we are focusing on the low-hanging fruit. We are improving the country’s technical education so that creates workers for three of our hubs in particular: business services, value added and digital. We are creating programmes that will act as finishing school graduates the technical skills to fill some of these rules”.

- Jose Alejandro Rojas

But the most important ingredient to a cluster is the companies themselves. We have seen a massive growth in shared services, with companies completing sophisticated tasks, such as accounts payable, accounts receivable, financial software and international admin., with Panamanian employees.

We’ve seen a growth in these companies and that’s because they can rely on a very good supply of bilingual Panamanian workers.

The BusinessPanama Group provides a convenient One Stop Shop offering the services of

- Setting up the company or branch
- Locating office and living premises in Panama City for the company and its executives
- Setting up all operations, contracts, permits, etc.
- Accessing special tax incentives
- Applying for visas, work and residence permits
- Relocation services
- Others

For more information, please contact us.

a. Panama in Focus

(by Bank of America Global Research Sept. 2021 - charts excluded)

We remain constructive, despite the fiscal risks.

We continue having an optimistic view on Panama's outlook – notwithstanding the large fiscal deficit and hesitancy in taking action on pension reform – mainly because we trust in the growth engine of the economy. It is an engine that has more cylinders than the growth motors of other LatAm countries. In the short-term, growth is more important, and Panama has time before fiscal reforms become unavoidable.

The Long Way to Economic Recovery

Perhaps not the best moment to digest fiscal tightening

In this moment, the economy is not in good shape to digest fiscal tightening. Last year GDP contracted 17.9%, the second-worst contraction in all LatAm (after Venezuela), with scarring effects in the form of bankrupted firms and lost jobs. The latest reading on the unemployment rate is 18.5%, in a country where the unemployment rate averaged 5% in the ten years prior to COVID-19.

Seasonally adjusted GDP in 2021 similar to almost five years ago

GDP rebounded 40% in 2Q21, but the level is still depressed. Adjusting the data for seasonality, one can see that GDP in 2Q21 was roughly similar to the size the economy had in the last quarter of 2016. Almost five years ago. In fact, sequentially (quarter-over-quarter), GDP contracted in 2Q.

There is marked duality on economic sectors: tradables vs. non-tradables

With the exception of tourism, which remains very weak, economic activities linked to external demand are substantially overperforming those associated with the domestic market. The Canal, ports & logistics, exports (especially copper), and the Colon Free Zone have picked up a lot.

In contrast, most indicators related to domestic demand are either weak (eg, non-residential construction, credit, labor market) or recovering moderately (electricity, water, meat production, deposits, auto sales). With a few exceptions, such as imports, fuel sales, manufacturing of alcoholic beverages and residential construction.

We forecast growth of 9.5% in 2021, and around 5% potential thereafter

Our GDP growth forecasts for 2021 and 2022 are unchanged at 9.5% and 5%, respectively. We believe the pre-pandemic GDP level is not likely to be recovered until 2023. Nevertheless, we have high conviction that Panama will see robust economic expansions again in the coming years. Recovering Panama's pre-pandemic potential growth rate is important because it will be the main driver of reducing Panama's debt ratio in the coming years (see analysis in EXD section) along with compliance with the new Fiscal Responsibility Law (FRL).

6 GOOD REASONS TO ARGUE THAT POTENTIAL GROWTH WILL LIKELY REMAIN HIGH IN PANAMA

According to Bank of America Global Research

I. MOST OPEN ECONOMY TO TRADE IN LATAM

Panama's trade openness – measured as exports plus imports of goods & services, divided by GDP – is above 100%, in real dollars. Arguably, the positive association between trade openness and fast GDP growth is one of the strongest empirical regularities in the economic literature.

II. HIGH SAVINGS AND INVESTMENT RATIOS

The investment ratio (gross fixed investment to GDP) dropped to 26% in 2020, which is still high by pre-pandemic LatAm standards, and averaged 38% in the thirteen years prior to COVID-19, for which there is available national accounts data (with the current base year). It has been one of the highest in the world, for a long time, allowing Panama to accumulate a large capital stock.

III. VERY HIGH CREDIT TO GDP

Financial credit to GDP in Panama is close to 100% of GDP, among the highest in the region. This is another powerful empirical regularity. Countries that have high financial penetration are able to channel savings into investments more effectively.

If there is an entrepreneur that needs credit, a person that needs financing to study, or in general a profitable project opportunity that requires capital, the Panamanian economy will do a better job at satisfying this demand than LatAm peers. In Argentina, for example, credit to GDP is around 15%. In Mexico and Peru, it's roughly 40%.

IV. MAYBE THE MOST DIVERSIFIED ECONOMY IN LATAM

Panama might be the most diversified economy in LatAm, together with Mexico. It is a country that predominantly exports services. In addition to the Canal, it has a large financial system and the second largest Free Trade Zone in the world (after Hong Kong), focused on re-exports, which is accounted as part of the commerce sector in the national accounts. It also gets significant revenues from the exports of ports & logistics services, tourism, and telecom.

In addition, the construction sector is sizable, mirroring high investment, but it has been shrinking. A new booming industry is metallic mining. We expect mining exports to reach close to US\$ 3bn (5% of GDP) from literally zero in 2018.

V. HIGH GDP PER CAPITA REDUCES SCOPE FOR SOCIAL PROTESTS

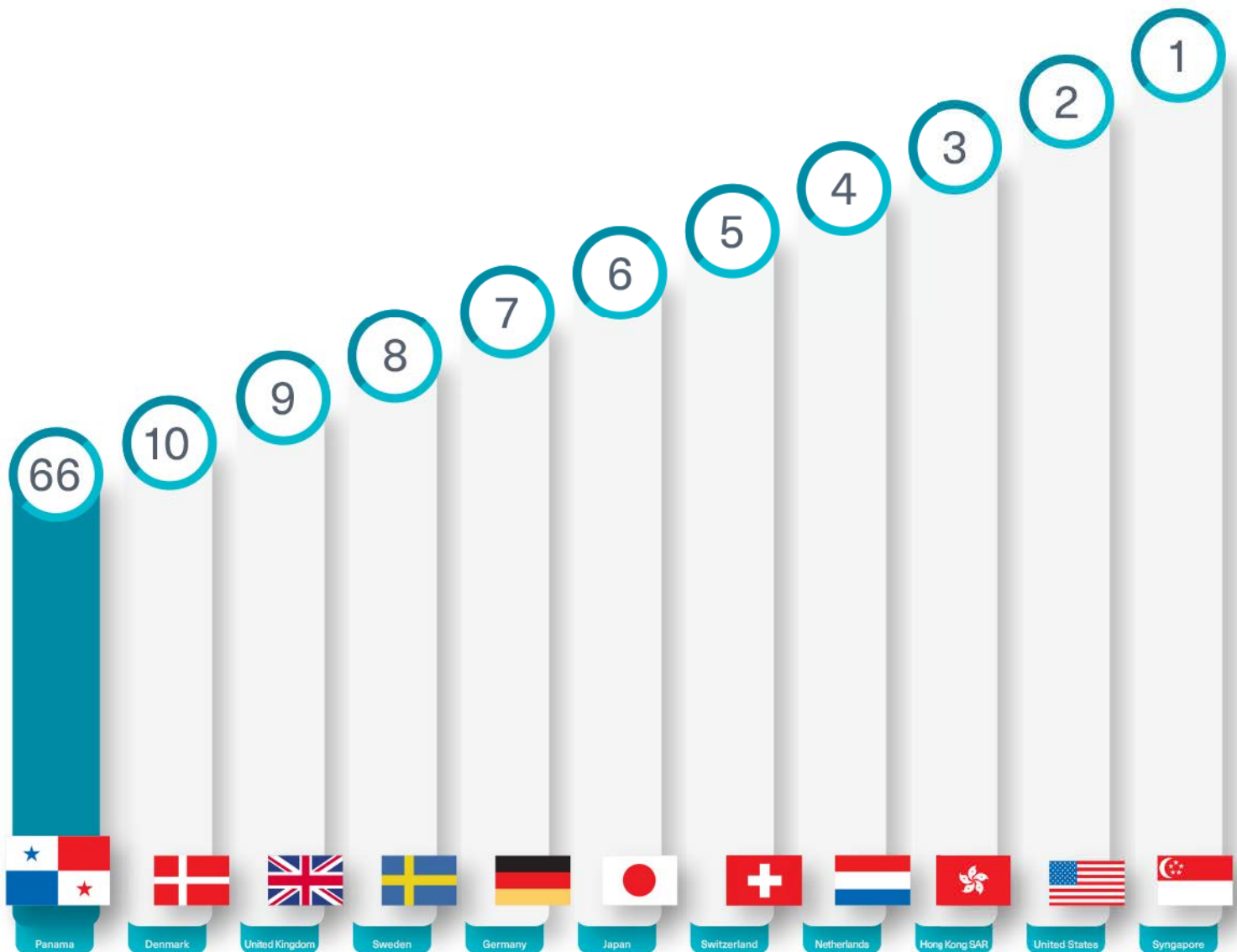
Although Chile is a fair counter example, countries with high GDP per capita like Panama – the highest in LatAm, in fact – should be less fertile ground for social protests.

VI. STABLE POLITICS AND NO IMMINENT THREAT OF POPULISM

Since the end of the military government in the late 80s, only three parties have alternated power in Panama (PRD, PP and CD). The three of them are market friendly. Market-friendly politics are usually conducive to stronger business sentiment and investment.

c. Competitiveness Report

The Global Competitiveness Report 2019, by the World Economic Forum (WEF), assesses the competitiveness landscape of 141 economies. It provides insights into the factors and institutions identified as determinants in the improvement of productivity, which in turn influences economic growth and prosperity. This report helps to visualize how countries use their available resources to provide opportunities for their respective populations and offers both policymakers and business leaders an important tool for formulating



In the 2019 Report, Panama improved in 10 of 12 of the total pillars. Panama presents the best scores in Latin America and the Caribbean (except for Chile) for Health (5th pillar). Except for Market Size (10th pillar), Panama scores higher in all pillars in comparison the regional average of Latin America and the Caribbean. The following table shows the Panama's rank for its most outstanding indicators, and their changes between the 2019 and 2018 Reports:

	2018	2019
Inflation %	1	1
Efficiency of seaport services	7	7
Efficiency of air transport services	9	13
Soundness of banks	16	21
Efficiency of train services	18	31
Trade openness	1	-
Environment-related treated in force	26	-
Liner shipping connectivity	30	29
Healthy life expectancy	31	32
Time to star a business	32	31
Domestic credit to private sector	33	34
Terrorism incidence	33	32
Complexity of tariffs	37	36
Strength of auditing and accounting standards	39	40
Competition in services	42	39

¹This is a sub-pillar composed of the following indicators: Prevalence of non-tariff barriers, Trade tariffs, Complexity of tariffs and Borderclearance efficiency.

²This is a new indicator that appeared in the 2019 Report.

Source: World Economic Forum

d. Country Risk

Country risk refers to a country's economic and/or political risks that may affect its business and result in investment losses. These risks may be political, economic, financial, exchange rate related, sovereign related and transfer related, among others. For example, the latter is the risk of capital being locked up or frozen by government action, while sovereign risk refers to the risk that the host government will default on its payment obligations.

Most often investors assess country risk through both country and sovereign risk ratings, which are provided by private rating agencies, as well as multilateral institutions. By taking multiple quantitative and qualitative factors into account, these agencies issue credit and investment ratings for each country. The following sections detail Panama's country risk ratings and analyses.



e. Investment Rating

During 2021, Standard & Poor's Global Ratings revised outlook on Panama to negative and affirmed at "BBB" (Local Currency LT) credit rating.

In its summary of the Annual Credit Analysis, Moody's confirmed a Baa2 Stable Outlook rating for Panama, according to a document issued by the rating agency dated October 2021.

Fitch Ratings has downgraded Panama's Long-Term Foreign Currency Issuer Default Rating (IDR) to 'BBB-' from 'BBB'. The Rating Outlook is Negative. Panama's downgrade to 'BBB-' reflects the severe weakening of public finances due to the economic disruption caused by the coronavirus pandemic, which has exacerbated underlying weakening fiscal trends predating 2020. The unprecedented GDP contraction and government revenue loss has prompted a material rise in public debt. A low and falling revenue to GDP ratio signals limited fiscal space to respond to economic shocks.

Standard & Poor's Global Ratings
BBB

Moody's Rating
Baa2 - Stable

Fitch Rating
BBB – Negative

f. Fitch Ratings

Fitch's international credit ratings relate to either foreign currency or local currency commitments and, in both cases, assess the capacity to meet these commitments using a globally applicable scale.

The local currency international rating measures the likelihood of repayment in the currency of the jurisdiction in which the issuer is domiciled and hence does not take account of the possibility that it will not be possible to convert local currency into foreign currency, or make transfers between sovereign jurisdictions (transfer and convertibility [T&C] risk).

Foreign currency ratings additionally consider the profile of the issuer or note after considering transfer and convertibility risk. This risk is usually communicated for different countries by the Country Ceiling, which caps the foreign currency ratings of most, though not all, issuers within a given country.

Rated entities in several sectors, including financial and non-financial corporations, sovereigns, insurance companies and certain sectors within public finance, are generally assigned Issuer Default Ratings (IDRs). IDRs opine on an entity's relative vulnerability to default on financial obligations. The threshold default risk addressed by the IDR is generally that of the financial obligations whose non-payment would best reflect the uncured failure of that entity.



As such, IDRs also address relative vulnerability to bankruptcy, administrative receivership or similar concepts, although the agency recognizes that issuers may also make pre-emptive and therefore voluntary use of such mechanisms. In aggregate, IDRs provide an ordinal ranking of issuers based on the agency's view of their relative vulnerability to default, rather than a prediction of a specific percentage likelihood of default.

Country ceilings reflect the agency's judgment regarding the risk of capital and exchange controls being imposed by the sovereign authorities that would prevent or materially impede the private sector's ability to convert local currency into foreign currency and transfer to non-resident creditors — transfer and convertibility (T&C) risk. As such, they are not ratings, but expressions of a maximum limit for the foreign currency issuer ratings of most, but not all, issuers in each country. Given the close correlation between sovereign credit and T&C risks, the Country Ceiling may exhibit a greater degree of volatility than would normally be expected when it lies above the sovereign foreign currency rating.

In their most recent rating report, dated February 2020, Fitch Ratings affirm all previous ratings, and state that these are supported by Panama's continued strong and stable macroeconomic performance. Nevertheless, the Negative Outlook reflects a marked deterioration in fiscal deficits and an increase in the government's debt burden, related to the accumulation of arrears by the previous administration and higher fiscal deficit targets under the modified Fiscal Responsibility Law. Structural advantages including a strategic location and asset (Panama Canal), trade openness and business-friendly policies have resulted in favorable economic growth.

Similarly, demonstrated access to multilateral lenders and global capital markets supports financing flexibility. The country ceiling is 'A' because of its open current and capital accounts, and the country's integration with the world economy. Ultimately, exchange and convertibility risks are negligible due to Panama's well-entrenched dollarization.

In their most recent rating report, Fitch Ratings affirm all previous ratings, and state that these are supported by Panama's continued strong and stable macroeconomic performance. Nevertheless, the Negative Outlook reflects risks to the government debt trajectory and uncertainty that the fiscal consolidation path set out in the revised Fiscal Responsibility Law can be achieved, given underlying fiscal challenges. A prolonged pandemic and delays in vaccination distribution are the main risks to economic recovery, which will underpin fiscal consolidation over the coming years.

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g. Moody's

Foreign currency ratings additionally consider the profile of the issuer or note after considering transfer and convertibility risk. This risk is usually communicated for different countries by the Country Ceiling, which caps the foreign currency ratings of most, though not all, issuers within a given country.

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IDRs provide an ordinal ranking of issuers based on the agency's view of their relative vulnerability to default, rather than a prediction of a specific percentage likelihood of default.

The ceiling generally indicates the highest rating that can be assigned to a foreign-currency denominated security issued by an entity subject to the monetary sovereignty of that country or area. Ratings that pierce the country ceiling may be permitted, however, for foreign-currency denominated securities benefiting from special characteristics that are judged to give them a lower risk of government interference than is indicated by the ceiling.

Such characteristics may be intrinsic to the issuer and/or related to Moody's view regarding the government's likely policy actions during a foreign currency crisis. The country ceiling for foreign-currency bonds and notes is expressed on the long-term global scale.

Moody's assigns a ceiling for foreign-currency bank deposits to every country (or distinct monetary area) in which there are rated bank deposits. The ceiling specifies the highest rating that can be assigned to foreign-currency denominated deposit obligations of:

1. Domestic and foreign branches of banks headquartered in that domicile (even if subsidiaries of foreign banks); and
2. Domestic branches of foreign banks. The country ceiling for foreign-currency bank deposits is expressed on the long-term global scale.

In their most recent rating action, dated October 2021, Moody's confirmed a Baa2 Stable Outlook rating due to the facts that:

1. As for Panama's credit profile, the document "reflects the country's continued strong economic performance and broad macroeconomic stability. The economy has grown by an average of 6% during the last decade, strengthened by the key role of the Panama Canal in world trade, as well as by high rates of investment.
2. Regarding the stable outlook, he explained that "it balances Panama's high economic growth potential and relatively favorable financing conditions with the challenges that the authorities will face when adopting policies to stop the upward trend of the debt and, ultimately, support fiscal consolidation.

h. Standard and Poor's

Standard and Poor's (S&P) Global Ratings issuer credit rating is a forward-looking opinion about an obligor's overall creditworthiness. This opinion focuses on the obligor's capacity and willingness to meet its financial commitments as they come due. It does not apply to any specific financial obligation, as it does not consider the nature of and provisions of the obligation, its standing in bankruptcy or liquidation, statutory preferences, or the legality and enforceability of the obligation.

Counterparty credit ratings, corporate credit ratings and sovereign credit ratings are all forms of issuer credit ratings. Issuer credit ratings can be either long-term or short-term.

In their most recent rating action, dated August 2021, S&P Global Ratings affirmed Panama's long-term sovereign credit ratings to BBB, maintaining the country's investment grade, while the outlook changed from stable to negative, basically due to the impact of the pandemic on the economy.

S&P expects the Panamanian economy to recover in 2021, growing 9%, supported by mining exports and higher private consumption as mobility restrictions ease and vaccination efforts continue. Additionally, they forecast that medium-term growth will return to its potential of 6%, as public and private investments pick up.

Additionally, the risk rating agency highlights that key infrastructure projects, such as the construction of Metro Line 3, together with a tunnel under the Canal, the extension of Metro lines 1 and 2, a new hospital, transmission projects of energy and road improvements, should support the growth and employment momentum in the coming years.

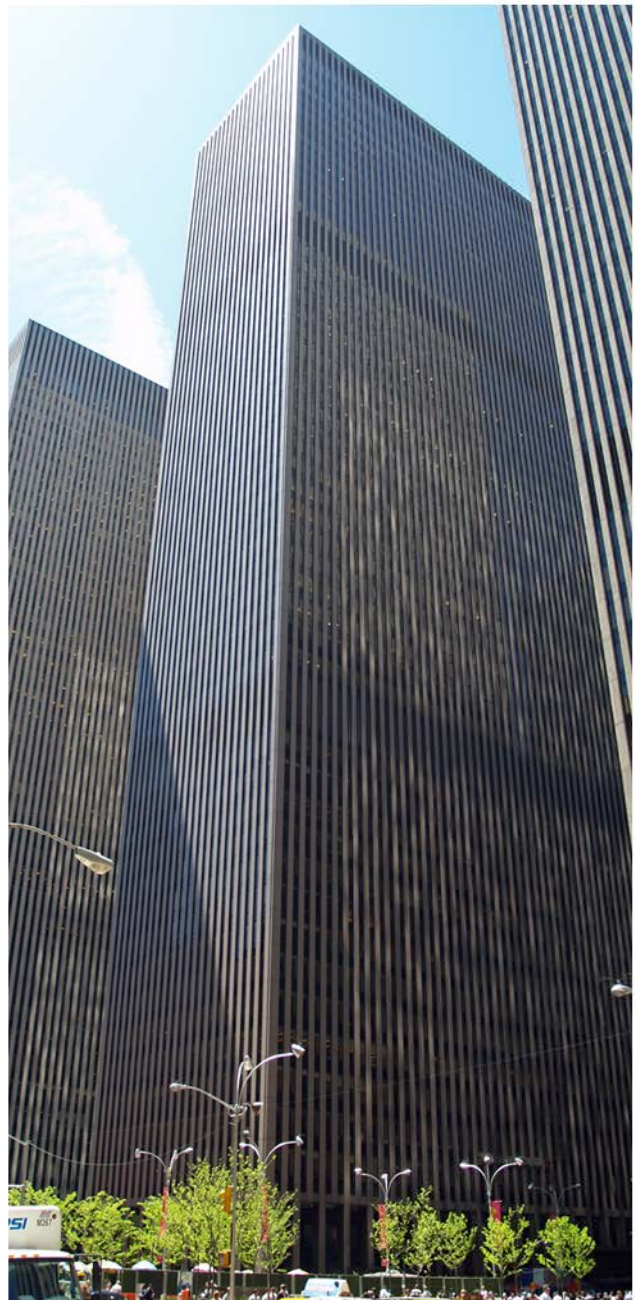
i. BICRAs (S&P)

The strengths and weaknesses of an economy and banking industry are critical factors that underpin the creditworthiness of a country's financial institutions. S&P distills this analysis into a single Banking Industry Country Risk Assessment (BICRA), "designed to evaluate and compare global banking systems" as stated by their criteria. BICRAs are scored on a scale from '1' to '10', ranging from what they view as the lowest-risk banking systems (group '1') to the highest-risk (group '10'). The BICRA methodology has two main analytical components: "economic risk" and "industrial risk."

A BICRA analysis for a country covers all its financial institutions that take deposits, extend credit, or engage in both activities, whether rated or not. In addition, the analysis considers the relationship of the banking industry to the financial system, and furthermore to its sovereign. For that reason, many of the factors underlying a sovereign rating are important in determining a BICRA score.

Their analysis of economic risk of a banking sector considers the structure and stability of the country's economy, including the central government's macroeconomic policy flexibility; actual or potential economic imbalances, and the credit risk of economic participants--mainly households and enterprises.

Their view of industry risk factors in the quality and effectiveness of bank regulation and the track record of authorities in reducing vulnerability to financial crises, as well as the competitive environment of a country's banking industry--including the industry's risk appetite, structure, and performance--and possible distortions in the market.



Industry risk also addresses the range and stability of funding options available to banks, including the role of the central bank and government.

The economic risk score for Panama is “Group 6”, according to S&P’s BICRA latest report, dated November 2020. This reflects an “intermediate risk” assessment of “economic resilience” and “high risk” assessments of “economic imbalances” and “credit risk in the economy,” as our criteria define those terms.

BICRA, ECONOMIC RISK, AND INDUSTRY RISK SCORES

								Argentina	Nigeria Sri Lanka Tunisia Ukraine	Belarus
								El Salvador	Bolivia Egypt Greece Vietnam	Azerbaijan Cambodia Kazakhstan Mongolia
				Guatemala				Georgia Honduras Jordan Russia	Armenia Cyprus Jamaica Paraguay	Bangladesh Kenya Turkey
			Thailand	Brazil China Colombia India South Africa Trinidad & Tobago	Bahrain Monaco Oman			Costa Rica		Uzbekistan
		Bermuda Mexico Peru		Hungary Italy Philippines	Indonesia Portugal					
		Malaysia Saudi Arabia		Panama UAE	Qatar			Uruguay		
		Chile UK	New Zealand Spain	Poland	Iceland Malta			Brunei		
Hong Kong	Canada Singapore	Australia France Netherlands USA	Czech Republic Israel Korea	Taiwan						
	Switzerland	Australia Belgium Finland Norway Sweden Germany	Denmark Japan							



Industry Risk

j. Sustainable Growth (IMF)



Panama has a strategic geographic position and innovative trade policies that allow it to serve as a regional and global center. In July of 2021, the International Monetary Fund (IMF) published a Country Report, about Panama, as background documentation for the periodic consultation session.

After over two decades of record high growth, Panama's economy contracted sharply in 2020 amidst challenges triggered by the global COVID-19 pandemic. Panama experienced an unprecedented economic expansion with average annual growth of 6 percent in the last 25 years, the longest and fastest in Latin America.

The high-growth episode was propelled by an investment boom, which included the expansion of the Panama Canal,

the construction of one of the largest copper mines in the world, and a construction boom that erected some of the tallest skyscrapers in Latin America. Panama reached high-income status in 2017, according to the World Bank classification methodology, and enjoys the highest per capita income in Latin America, rapidly reducing the gap with advanced economies. Social outcomes also improved significantly over the last few decades.

However, the economy faced an unprecedented shock stemming from the 2020 global economic recession and lockdown which affected trade and domestic economic activities as a consequence of the COVID-19 pandemic.

According to the IMF, without the COVID-19 impact, growth was expected to rebound in 2020, and economic activity was projected to recover after a slowdown in 2018-19, supported by full-scale copper production and robust private investment. However, growth in 2020 is expected to contract significantly due to the Coronavirus pandemic to a -2.0%, majorly impacting employment industries such as services and construction.

Finally, a realignment of fiscal revenue and expenditures is imperative to sustain growth. Adopting cybersecurity and fintech regulatory frameworks while capitalizing on Panama's digital and mobile connectivity could place the country as a regional fintech hub, enhancing financial inclusion, and lowering intermediation costs.

Nonetheless, positive contributions are expected from public expenditures, while increasing fiscal deficit. Growth over the medium-term is expected to remain at its potential and the fintech sector holds potential in the presence of an appropriate regulatory framework. Additionally, existing policies attract knowledge-intensive industries and research activities to special economic zones.

MEDIUM-TERM MACROECONOMIC OUTLOOK

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Macroeconomic Developments											
Real GDP growth	5.0	5.6	3.6	3.0	-17.9	12.0	5.0	5.0	5.0	5.0	5.0
Output gap	0.0	2.4	4.4	4.4	-14.2	-6.3	-4.3	-2.3	-0.3	0.0	0.0
CPI inflation (average)	0.7	0.9	0.8	0.8	-1.6	0.2	1.1	2.0	2.0	2.0	2.0
Private credit growth	8.4	6.5	4.5	4.5	-2.6	12.3	6.1	7.1	7.1	7.1	7.1
Fiscal Accounts											
Overall balance	-2.0	-2.2	-3.2	-3.6	-10.1	-7.4	-4.0	-3.0	-2.0	-1.5	-1.5
Structural primary balance	-0.4	-1.0	-2.3	-3.2	-4.7	-3.3	-0.8	0.3	0.2	0.5	0.4
Public debt (gross)	35.3	35.3	37.3	42.2	64.0	62.9	62.5	61.7	60.2	58.3	56.4
Public debt (net)	20.5	23.1	26.0	29.1	41.2	44.0	45.5	45.5	44.5	43.1	41.7
External Sector											
Current account balance	-7.8	-5.9	-7.6	-5.0	2.3	-3.4	-3.3	-3.1	-2.8	-2.6	-2.5
Foreign direct investment	-7.9	-6.9	-7.6	-5.5	-1.2	-6.4	-6.4	-7.0	-6.9	-7.1	-7.1

Sources: Ministry of Economy and Finances; INEC; and IMF staff calculations.

k. Doing Business Rankings (The World Bank)

The Doing Business Project, of the World Bank Group, provides objective measures of business regulations and their enforcement across 190 economies and selected cities at the subnational and regional level. Economies are ranked on their ease of doing business, from 1 to 190. A high ranking on the ease of doing business index means the regulatory environment is more conducive to the starting and operation of a local firm. Hence, it measures how easy it is to do business in a country, according to the difficulties and time in getting paperwork done, the export and import of goods, opening a business, protecting investors, cross border commerce, getting electricity, water and phone services for your business, and receiving the necessary permits.

Panama is in the 86th place in the Doing Business 2020 ranking, and the 7th in Latin America and the Caribbean, after Chile, Puerto Rico, Mexico, Colombia, Costa Rica and Peru. Showcased in the report was Panama's high score on 'getting credit', 'starting a business', 'trading across borders', and 'getting electricity'. Improvements are required for 'enforcing contracts', 'paying taxes' and 'resolving insolvency'.

	Rank 2020	Score 2020	Score 2019
Starting a Business	51	92.0	92.2
Dealing with Construction Permits	100	68.2	68.2
Getting Electricity	51	83.5	86.2
Registering Property	87	65.2	65.2
Getting Credit	25	80.0	80.0
Protecting Minority Investors	88	56.0	56.0
Paying Taxes	176	46.7	46.7
Trading Across Borders	59	85.5	85.5
Enforcing Contracts	141	49.0	49.0
Resolving Insolvency	113	39.5	39.6

Sources: Doing Business Report, World Bank

I. World Investment Report (UNCTAD)

The World Investment Report, published by the UN Conference on Trade and Development (UNCTAD) focuses on trends in Foreign Direct Investment (FDI) worldwide, at the regional and country levels, and emerging measures. It also supports policymakers by monitoring global and regional FDI trends and documenting national and international investment policy developments.

Every issue of the Report includes:

- Analysis of the trends in FDI during the previous year.
- Ranking of the largest transnational Corporations in the world.
- In-depth analysis of a selected topic related to FDI.
- Policy analysis and recommendations.

Panama continues to be an important pole of attraction for FDI. In absolute terms, it is the country that received the most foreign direct investment, in Central America and the Caribbean. Additionally, the country extended its fiscal incentives for the tourism industry until 2025, in order to promote investment in hotels and recreation activities.

Region/Economy	FDI Inflows				FDI Outflows			
World	1,983,478	1,700,468	1,495,223	1,539,880	1,543,239	1,600,984	986,351	1,313,770
Latin America	136,610	156,193	156,193	164,236	10,818	38,249	127	41,598
Belize	44 ^a	24 ^a	122 ^a	103 ^a	2a	0.3 ^a	1 ^a	2 ^a
Costa Rica	2,204	2,742	2,237	2,536	77	159	53	117
El Salvador	347	889	826	662	-0.4	0.2	-	0.4
Guatemala	1,185	1,170	1,003	998 ^a	117	169	218	181 ^a
Honduras	1,139	1,176	961	498	239	141	66	-1
Mexico	30,989	34,165	34,746	32,921	482	3,919	7,712	10,228
Nicaragua	899	772	3595	515	32,921	65	75	23
Panama	4,866	4,177	5,297	4,835	515	138	-163	-634
Caribbean	3,416	4,377	2,713	3,983	200	35	78	752

* The 2020 World Investment Report incorporates Mexico as part of Central America in their classification.
^a Assets/Liability basis.

Source: UNCTAD

PANAMA FOREIGN DIRECT INVESTMENT 2012-2020

The Foreign Direct Investment in Panama is a key driver of the economy, representing an average of 7.8% of the country's GDP for the last 5 years (2017-2021).



A significant part of the FDI net inflows come from the reinvestment of earnings generated by foreign companies in the country, which is a sign of the confidence that foreign companies have had in the country and future growth.

MOVEMENT IN PORTS



CONTAINER PORT TRAFFIC INDEX (THE WORLD BANK)

Published by the World Bank, this indicator measures the flow of containers from land to sea transport modes, and vice versa, in twenty-foot equivalent units (TEUs), which refers to a standard-sized container. Data references coastal shipments as well as international journeys. Transshipment traffic is counted as two lifts at the intermediate port (once to off-load and again as an outbound lift) and includes empty units.

In international commerce, the ports in Asia, especially China's, and in the U.S., lead the ranking by a wide margin. Brazil, Mexico and Panama, lead the Latin American and the Caribbean ranking, in TEUs.





Economic & Investment Sectors

a. Hotels, Resorts & Casinos

Hotels

Many five-star hotels in Panama are able to offer the highest level of accommodation, facilities and services to visitors. Major brands such as Hilton, Waldorf Astoria, JW Marriott, Westin, Hard Rock, Radisson and Intercontinental all have presence in Panama City oceanfront and downtown, giving visitors a choice of modern amenities including luxury rooms, meeting and convention centers, conference facilities and up-to-date technology.

The luxury W Hotel Panama (203 rooms) started operations in Panama. In addition, another luxury hotel member of The Luxury Collection hotel such as The Santa Maria Hotel, located at the Santa Maria Golf and Country Club in Costa del Este, has already begun operations.

Investors can also find many hotels and Motels for sale in Panama in areas such as Bocas del Toro, Chiriquí, Panama City and Los Santos.

Resorts

Although Panama is a small country, it has a great variety of world-class resorts for every taste and choice. Most international resort chains and brands have a presence in the country, as well as a number of boutique resorts in Panama country-side that can suit the needs of visitors and locals as well.

Major international brands such as Riu, Westin, Decameron, Bristol and JW Marriot top the list of all-inclusive beach resorts in Panama, offering the vacation of your dreams if beach and relaxation is what you seek. They also offer a variety of entertainment for kids and adults such as scuba diving, snorkeling, jet skis and horse riding, among others.

If nature is what you seek, the country also offers a variety of eco resorts across the country, which offers many ecotourism activities, such as AI Natural Resort in Bocas del Toro, Villa Caprichosa in Taboga Island and the Islas Secas Reserve & Lodge in Chiriquí just to name a few.

Islas Secas Reserve & Lodge is a boutique hotel, located at the Arquipielago of Islas Secas in Chiriqui include fishing and sailing facilities, and one large collection of outdoor activities. This luxury resort is designed for both couples and families.



Casinos

Panama has become the strategic center of the Americas to promote fun, tourism and gambling business. In the last year Panama Casinos have had the bar raised as three new premiere casinos recently opened. The Panama Casino industry is undergoing a renaissance as these top-level casinos move in:

Sortis Casino located in the Obarrio neighborhood of Panama City is officially the largest Casino in Panama. The Casino is located within the Sortis Hotel. The hotel also has upscale restaurants on the main floor and a full spa for you to take advantage of.

The Starbay Casino is located in the Hilton Hotel at Cinta Costera, facing the Pacific Ocean. The casino boasts 27 gaming tables and hundreds of slot machines. Enjoy live music as you play. The Sunbay Casino has a Tapas Bar and Sports Bar.

Panama as International Center for Events

In 2022, the Amador Convention Center finally opened its doors. This is a US\$300 million project that will represent 58 thousand square meters, plus 3 separate structures for conventions and fairs for an additional space of 15 thousand square meters and parking facilities for more than 1,700 vehicles, just beside of the Panama Canal.

This new cruise terminal itself is a US\$165 million project that will allow more than 600 thousand tourists who currently pass through the Panama Canal to visit Panama City as a destination of their cruise trip as well as a new opportunity for residents and tourist who uses the Tocumen Airport to visit Panama and take a cruise trip from Panama City to other destinations.

Today, the regulations encourage foreign investments in the tourism sector.

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b. Panama as Headquarters for Multinationals

Panama is increasingly ranked on decision makers' shortlists when it comes to choosing the location of their international and regional headquarters. Panama provides access to the LatAm market of 400 million people. Offering a high quality of life, a central location and tax incentives, among other advantages, companies view Panama as a strategic location from where they can oversee investment in the developed and emerging countries of the region.

Coupled with English-speaking staff and strong cultural ties, the country is gaining attention as an international management centre and an ideal hub to enter neighboring markets. More than 177 multinational corporations have located corporate management functions on the country, between them: Procter & Gamble, Heineken, Caterpillar, BMW and ArcelorMittal.

Gateway Country

What sets Panama apart from the rest of its regional neighbors is its privileged geographical position, located between the two Americas and minutes away from the Caribbean Sea and the Pacific Ocean. Five percent of the entire world's trade goes thru the Panama Canal. The US Dollar as currency, has a solid and competitive financial center. An enviable port and logistics system, the second largest free zone in the world, a service-based economy and the region's best airport and cargo facilities.

Panama also possesses one of the best transport infrastructures in the region, its tourism industry is growing very rapidly, it enjoys a good climate the whole year round and the country enjoys political and social stability of a democratic country.

Panama is also a long-established key intermediary for foreign investment. In fact, trade and investment are of vital importance to Panama's economy since the 15th century and, according to the 2021 Index of Economic Freedom, annual index and ranking created by The Heritage Foundation. Some of the most highly respected names in financial services, manufacturing, shipping, petroleum, logistics, pharmaceuticals and many others have in turn chosen to establish operations in Panama and use the country's strategic location as a springboard for development in the LatAm region and beyond.



Based in Panama

Companies from all economic sectors have located regional headquarters or certain key functions on the country. The international trading arm of Procter & Gamble has its headquarters in Panama, and shipping company Maersk manages its LatAm operations from the country. Pfizer found the country to be a convenient location to establish a regional center as a result of the country's favorable situation in the region. Nestle set up a sales, services and support center in Panama in an effort to break down the barriers of distance, language and culture. Companies from the finance sector have also found Panama a profitable base. The oil and gas industry represented in Exxon, Chevron, Total, BP and others have also discovered Panama as a safe service center in the South & Central America and the Caribbean, while in the IT sector Panama has become a prime jurisdiction for gaming companies offering games to players worldwide. The pharmaceutical industry is another prominent example of strategic investment in the country, with Pfizer, Hoffman-LaRoche and Sanofi Aventis operating a regional sales and marketing unit in the country, which is responsible for the LatAm region.

Corporate Location

Doing business in and from Panama is easy: as home to a major international financial services sector, the country has one of the most developed business infrastructures in the world, making it an ideal base for region-wide corporate coordination and central management functions, sales, marketing and customer service. A neutral, pro-business and economically stable country, Panama offers companies a perfect climate to successfully compete in the region. A fiscally efficient tax structure leads the way and is complemented by a network of multiple double-taxation treaties, facilitating international business and ensuring a smooth trading environment. Political stability and solid legal, banking and accounting systems make investing in Panama attractive and safe.



An Eye on Asia

As growth opportunities continue to move away from the traditional markets, most multinationals want Asia to become part of their expanding global footprint. It is a continent ripe with potential; and an increasing number of corporates believe locating key business functions close to the growing number of Asian consumers is now more important than ever. Despite a number of challenges, China is undergoing a transformation that is difficult to ignore. The continent is seeking to accelerate its own economic growth and offers investment and trade opportunities across all sectors, including energy, retail, tourism, leisure, utilities, transport, telecoms, health and education. In this climate, Panama's profile as a safe and secure gateway to these developing markets is taking shape and the country is emerging as a preferred entry point for companies with operations across Asia. Some of the first companies to take advantage of the huge market at its doorstep were Panama's retailers and distributors. Many of them have successfully expanded and now undertake the distribution management for a number of leading brands.

Panama's business community believes the country is well suited to be a base for the sale and distribution of a vast range of consumer goods into LatAm markets. Believing in Panama's potential as a launch pad to nearby markets, and that includes LG, Samsung, Hyundai and others.

Decisions Criteria

Besides geographical proximity to major markets, Panama also scores high on connectivity. The country has been labeled the "Hub of the Americas" and is connected by air to almost every major city in the North, Central & South America, the Caribbean, Europe and even Turkey, most being just a few hours' flight-time away. Located uniquely on the main shipping routes, the Panama Canal has also turned the country into a major transshipment hub connected to more than 100 ports worldwide. The advantages of operating in, or from, Panama also include the country's flexible, highly trained and multilingual workforce, with wages below average.

Foreign companies based in Panama comment favorably on their experiences with their local employees in terms of productivity, profitability, dependability and rapid response times. The country's low crime rate, tropical climate, competitive personal tax rates, as well as its good educational and healthcare systems also make Panama an easy sell for American, Asian, South American or European expatriate executives, particularly those with families.

Investment Opportunities

The Multinational Companies Law No. 41 of 2007 define a multinational company as a company that operates from Panama, aimed at offering services to its headquarters or its subsidiaries, sister companies or associated companies or sets its headquarters in Panama, Branches will always be part of multinational companies with international or regional operations in their country of origins.

Under this law, there are opportunities for investors to either established its headquarters or established branches, sister companies that can help carry out the operations of the Business Group. Services or activities that can carry out from Panama under this law are the following:

1. The administration of the Group
2. Logistics and / or storage of equipment or goods
3. Technical assistance to the Business Group
4. Back office, accounting
5. Advice, coordination and monitoring of advertising and marketing
6. Electronic Processing of the activities of the Business Group
7. Financial Management
8. Support for the D+1 Departments
9. Service Centers and any other activities that can help to the operation of the Business Group.

Incentives

Law No. 41 provides several tax benefits, both at corporate and personal level (for management).

At corporate level, the tax incentives are:

- Total exemption on Income Taxes. Since Panama has a territorial tax system, and since the Multinational Company will be operating providing services to its operations outside Panama, there is no taxable income. Given the case that the Multinational Company provides service to a local operation, such local operation will have to be provided through a separate legal entity (another company), and any transfers of funds from that entity to the Multinational Company will have to retain 12.5% as income tax.
- Possibility of negotiating a tax scheme. A Multinational Company will not pay taxes in Panama, if for reasons of global tax planning it wants to pay taxes, it can be done through an agreement with the local tax authorities. This agreement can include the tax rate, and any other provision that the Multinational Company deems necessary, provided that such provision is not against Panamanian public policy or morals.
- Exemption from sales tax for services rendered to related corporations abroad. Multinational Company invoicing to offshore operations are not subject to the 7% sales tax.
- Foreign personnel of the company with a Multinational Headquarters License that is covered by a Permanent Employment Visa for a Multinational Company will not generate income taxes if payment is received from abroad. They are also exempted from Social Security contributions. However, for these employees and their dependents the company must provide private health insurance, which must be issued by an insurance company with license in the Republic of Panama.
- Additionally, holders of a Permanent Employee Visa for a Multinational Company may import their household goods free of import tax and may import a vehicle for its family use every two years. However, sales taxes must be paid.

These tax exonerations will not apply to Panamanian employees or other foreign employees that are the holders of a visa different than a Permanent Employee Visa for a Multinational Company, which will be subject to the tax norms and provisions in force in the Republic of Panama.



Visas

Please note that Law No. 41 creates three (3) visas specifically for foreign employees of the Multinational Company. These visas are processed before the Ministry of Trade and Industry. These visas are:

- Special Visas for Permanent Personnel of Multinational Company. These visas are issued to foreign personnel at a managerial or executive level, and to their dependents. The visas will be issued for a 5-year period.
- Special Visas for Temporary Personnel of Multinational Company. These visas are issued to any personnel of a Multinational Company that has to come to Panama for activities related to the Multinational Company. It has a maximum duration of 3 months. This type of visa also eliminates the requirement of obtaining a working permit or any other permit from any governmental authority.
- Special visas (permits) for special events. These visas are to be issued to personnel of the Multinational Company that come to Panama to attend a specific event. These visas are only for Multinational Company personnel that hold a nationality which requires a visa to enter the country. All other personnel will not need to apply for this visa if coming only for a specific event or short visits, such as meetings, planning, technical training, etc.

Please note that the Permanent Employee Visa for a Multinational Company shall be given for a term that may not be longer than the term established in the employment contract, which shall in no case be longer than five (5) years. Holders of these types of visas will not be required to obtain a work permit (usually required for all other types of visas).

Labor regulation incentives. Law No. 41 exempts Multinational Company from the application of labor quotas, in the case of holders of Special Permanent or Temporal Permits for Permanent or Temporal Personnel of Multinational Company. These means that the proportion of 10% foreigners to 90% Panamanians required by the Labor Code, does not apply when foreigners working with the Multinational Company are holders of these Special Residence Permits.

License requirement. In order to benefit from all of these incentives, a Multinational Company will have to apply for a license before the Licensing Commission for Multinational Headquarters.

In addition, special areas in and around Panama City are being developed with modern infrastructure, logistical systems, communications, schools and housing to cater to the number of executives and personnel of Multinational Company that are moving to Panama.

Pull Factors

Panama has established itself as a magnet for foreign companies and is improving its competitive position steadily. A stable business environment, favorable corporate tax regime, world-class infrastructure and excellent quality of life – these are just a few of the many reasons why companies relocate senior decision makers to perform strategic functions from Panama. In the long term, the prospects are good that Panama will benefit from the growth in the region and become an increasingly popular choice for the location of international and regional headquarters. [Review the list of Multinational Companies in Panama, here.](#)

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c. Construction

Since 1990, newly constructed properties in Panama have been subject up to a 20-year tax exemption on property taxes. The law, which has expired several times, has been consistently renewed.

Preferential interest rates are granted for mortgages that fulfill the following conditions:

- The loan must be used either to purchase or to construct the borrower's home, and the house must be new. Therefore, it cannot be used to remodel an existing home.
- The home will be used as collateral on the mortgage.
- The value of the home or the construction cannot exceed USD 120,000.00.

Law 29 of 2012 was enacted to promote the acquisition of a new property below current market prices.

According to Law 29, the difference between the interest reference rate and the lower interest rate that the lender may offer to the public with his discretion for each kind of preferential loans is called preferential lap. The aforementioned preferential lap may not exceed 4% for loans for housing purposes which its registered value it is USD 35,000.00 and up to USD 65,0000.00

The preferential lap for loan housing which its registered value is more than USD 65,000.00 and up to USD 120,000.00 will be 2%.



世纪星

d. Airports, Ports & Logistics



Much of Panama's logistics platform has been developed to support international trade. The logistics platform is organized into logistics business components. Panama has a set of logistics components that have been working in an organic and coordinated system for almost a century. These components include seaports, airports, special economic zones, and a network that includes a transisthmian railroad, expressway, and roads geographically well positioned to be a hub for regional and international trade.

Currently, Panama's strategic location together with expanding and continuous development of infrastructure drive national and international stakeholders to look at Panama as a potential location to supply both North American and Latin American markets both via transshipment and as a hub for distribution.

Airports

Panama has one of the most advanced airport infrastructures in Latin America. Given its position, the Tocumen International Airport has become a hub for the Americas connecting North and South America, the Caribbean and Europe.

Tocumen International Airport is home for COPA Airlines, the largest Panamanian Airline, and has more than 20 other actively operating airlines including Lufthansa, Air China, United, Turkish, Delta, American and more.

“Panama's high level of connectivity attracts investors and multinational corporations to the country.”

The Tocumen International Airport is expanding at an unprecedented rate. Tocumen International Airport is the regional hub for multiple commercial and cargo airlines. It connects passengers and moves cargo to more than 37 countries and 85 destinations all around the world.

For connecting flights, there were approximately 9,163,998 passengers that used Tocumen International Airport in 2021, recovering 55% of the movement registered in 2019, prior to the pandemic, when 16,582,601 passengers passed. In 2020, levels of barely 30% had been reached. The cargo terminal itself handled over 21,401 tons of cargo in December and a total of 202,743 metric tons in all of 2021.

The airport expansion program will provide more capacity to both passenger and cargo terminals allowing a larger number of aircrafts, cargo and passengers to use our country as a connecting point to the world.

Regarding regional flights, the local network includes six more international airports, as well as 24 landing strips that allow passengers and a small volume of cargo to move around Panama easily and safely.

This cargo movement through air has prompted an unprecedented development of logistics parks and warehousing centers near the Tocumen airport.

The Tocumen International Airport Multimodal Zone is part of the airport expansion which aims to strengthen the airport's strategy to modernize the cargo terminal and develop the first airport free trade zone.

The Zone will be regulated under the same legal regime of Law 32 of 2011, which establishes the legal regime for Free Trade Zones.

When concluded the airport expansion will count with:

- 20 new gates
- 8 remote positionings
- 8000 sqm of commercial space and duty free
- 3000 sqm for VIP areas, and
- New modern custom facilities



Setting up
Operations and
Regulatory Approvals

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COPA, LAN

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Antitrust Litigation between
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Ports

Panama has a network of state-of-the-art seaports that provide a variety of services to containerized, bulk, liquid and general cargo, as well as to passengers in cruise terminals.

Panama has several seaports in the Atlantic area mainly serving the East Coast of North and South America, and the Caribbean. Manzanillo International Terminal (MIT), owned by US company Stevedoring zServices of America, Cristobal-Panama Ports Company (PPC), owned by Chinese Hutchison Group, Colon Container Terminal (CCT) owned by Taiwan company Evergreen, and Colon Port Terminal (CPT).

At the Pacific area, the port of Balboa is currently the only terminal performing container's handling service. Both, Balboa and Cristobal are being operated by Panama Ports Company, members of the Hutchinson Port Holdings. A new container seaport operates at the Balboa area by the name of PSA Panama International Terminal, as part of the Port of Singapore group.

Also, two additional ports provide commercial services to containerized cargo: Bocas Fruit Co. terminal at Almirante and Rambala terminal at Chiriqui Grande both located at the northwestern part of Panama in the province of Bocas del Toro. These ports handle bulk and general cargo, but the container segment is dedicated to the reefer liner service of banana exports.

There is one Cruise Terminal in the Atlantic of Panama named Colón 200 and the Amador Cruise Terminal, constructed by Chinese firm China Harbour (part of CCA Group), a brand-new terminal in the Pacific entrance of the Panama Canal.



A new generation of LNG Terminals are being developed by different companies. See our chapter on Petroleum, Free Zones.



Other potential areas are being promoted and segregated to provide business opportunities and to attract new companies to set up operations for storage and distribution in the country.

Logistic Parks

Panama has a large number of logistics assets providing logistics support to national and international markets. In 2019, the seaport cluster at both entrances of the canal handled over 7.3 million TEUs through the most important shipping lines. The air transportation platform has been developing during the last few years, where many industry players have established large scale operations by using Tocumen International Airport as a hub for passengers and cargo. Many expansion projects are under construction to expand even more the network of airports for international and domestic services.

Colon Free Zone and Panama Pacifico area are two examples of Special Investment Regimes dedicated to merchandise reexporting and promoting high-tech activities leveraging the transport connectivity to other countries and a variety of fiscal, migratory and labor benefits.

These logistics nodes interact among them and facilitate the flow of goods and passengers by using the existing local network that includes a railroad and a road and highway system.

The small size of Panama allows a close interaction among different assets: seaports, airports, railroad, special economic zones and the local market. This condition facilitates the establishment of specialized and dedicated areas for warehousing and other third-party logistics operations that leverage the accessibility to world class transportation services and trading tradition.

Logistics parks are being developed as a new model of logistics integration in Panama where specialized operators take advantages of the existing platform.

Investment Opportunities

One of the best opportunities is the construction and development of a new Roll On Roll Off (Ro/Ro) port in Corozal, owned by the Panama Canal Authority (ACP). Although, this project is on hold, it represents one of the top forthcoming opportunities.

The new international airport of Tocumen is in the process of development and promoting a free trade zone located at the cargo terminal. The plan to develop a new cargo terminal with value added logistics. The government has been looking for an international operator, but still in the process.



PANAMÁ'S ECONOMY CONTINUES TO BE **STRONGLY CONNECTED** TO THE MARITIME INDUSTRY, BETWEEN THE CANAL, PORTS AND OTHER CONNECTED ACTIVITIES IT CONSTITUTES ABOUT 35% OF THE COUNTRY'S GDP.

CONSEQUENTLY SOME OPPORTUNITIES ARE:

- **Oil and LNG terminals for ships crossing the Canal**
- **Ship and yacht repairs**
- **Ship and yacht management from any free trade zone**
- **Ship and yacht building, under incentives granted by law 52 of 2016**
- **P&I and ship insurance services provided from Panama under Law 52 incentives**
- **Ship Financing services and structures organized from Panama under Law 52 incentives**
- **Marinas**

AN INTERNATIONAL LAW FIRM RECOGNIZED WITH THE TOP AWARDS

Pardini & Asociados is a Panama multi-disciplinary law firm, where our clients transactions and awards are our best introduction. With 40 years of tradition and experience advising foreign clients and corporations of all sizes, we are your best choice for legal solutions.

The law firm has received the following awards during last years:

WHO'S WHO LEGAL
GLOBAL LEADER
"Mining 2022"



LEGAL 500
LATIN AMERICA 2022
"Top Tier"



WHO'S WHO LEGAL
GLOBAL LEADER
"Private Client 2022"



CORPORATE INTL 2022
"Private Client Law Firm
of the Year in Panama"



LEXOLOGY
GETTING THE DEAL THROUGH
"Private Client 2022"



GLOBAL 100
Law Firm of the Year 2022
"Energy & Petroleum"



WHO'S WHO LEGAL
CENTRAL AMERICA
"Corporate 2022"



WHO'S WHO LEGAL
CENTRAL AMERICA
Environment, Energy & Natural Resources
2022"



WHO'S WHO LEGAL
CENTRAL AMERICA
"Private Client 2022"



e. Real Estate in Panama

A vast majority of expats are purchasing apartments under constructions in areas such as Punta Pacifica, Balboa Avenue, Costa del Este, El Cangrejo, San Francisco, Punta Paitilla and San Francisco; beach front properties between Coronado and Buenaventura; island properties in Bocas del Toro and mountain properties in Boquete.



On 2022, Panama was named N° 1 country to retire in the world by International Living.

During the past several years, a welcoming climate, controlled crime rates, excellent incentives for retirees, reasonable prices, together with the natural beauty and ethnic diversity that is Panama, all appeal to people from North and South America and Europe who are looking for a different option for retirement.

The process of purchasing real estate in Panama is very similar to the way it is managed in other countries. Most properties have titles or can be titled, traditional mortgages are available, and Panama has foreign investor protection laws that guarantee the standard rights of land ownership. Records of all titled properties are accessible at the public registry of Panama, which has online access.

Investment Incentives

Because more visitors and tourists are arriving in Panama coupled with the fact that more people are making Panama their first choice to live and setup home, this has all led to a shortfall in the housing market. So new accommodation is very sort after and is in high demand. Property is a very good investment here in Panama and around 50 km of Panama City and the Canal.

Panama City has become a cosmopolitan modern metropolis - there are many rise buildings overlooking the ocean and the Bay of Panama. Residential areas like Marbella, Paitilla, Coco del Mar, Punta Pacifica, Costa del Este, Santa Maria and San Francisco offer a good range of apartments and condominiums for sale. Suburban residential areas in the former Canal Zone like Amador Heights, Balboa, Albrook and Clayton offer large and attractive single-family homes and condominiums.

Casco Viejo is the oldest city on the Pacific Coast of the Americas that has become a desirable place for real estate investment, encouraged by the Panamanian government Casco Viejo investment incentives for the restoration of the historic Casco Viejo district.

U.S. style shopping malls featuring entertainment facilities, hotels, convention centers and the Subway Line. Single family homes and condominiums are also available in attractive suburbs in Altos de Panama, El Dorado and in the Panama Canal Riviera. Other new options being developed in the city are lofts, villas and condo hotels where owners and guests can share the amenities and social areas adding more variety to the already attractive offer for living or investing.



Panama City combines a variety of world-class attractions and activities nearby. For example, its accessible rainforest from any part of the city, its International Banking Center, its cosmopolitan lifestyle, its cultural and historical attractions, the nightlife and its proximity to the best beaches, among others.

Outside Panama City, there are beautiful real estate properties located in popular destinations including, Chiriqui, Boquete, El Valle, and Altos de Maria. Known mostly for their cooler climates, incredible flora and quiet peaceful atmosphere, real estate in the highlands of Panama are ideal for those interested in retiring abroad.

Another popular destination for Panama real estate is Bocas del Toro. This well-known touristic destination in Panama is most known for its crystal-clear waters, rich Antillean culture, unique over-the-water architecture, laidback tropical atmosphere, among others. In recent times, Bocas del Toro has become a booming center for South American, European and American Expats and tourists.

Trendy Locations in Panama City

Trendy Locations in Panama City
There are many residential districts in and around Panama City. Beautiful condos with fantastic ocean views are available in a price range that suits every budget. Many have pools, spas, gyms and children play areas.

You can find amazing bayfront high class condominium buildings in **Balboa Avenue**, very closer to shopping and boutiques, malls, banks, restaurants, supermarkets, etc., such as the Nuovo, Costanera, Hyde, just to mention a few, that have available luxurious apartments ready to occupy.

El Cangrejo is a traditional neighborhood in Panama City showing great new trendy projects like Van Gogh, Mondrian, Sky High, More and others.

Bordering **Marbella** is a residential and commercial district called Obarrio with trendy restaurants, clothing shops and high-end boutiques. This is a favored embassy area. You can find available office space for rent and sale, such as the Hyde.

Closer to Marbella is a luxury residential district called Punta Paitilla. This is an extremely dense area of high-rise condos even by NYC or Singapore standards. We can find luxurious projects under construction such as the Point, The Towers and Villa Marina.

Punta Pacifica, next to Paitilla, is a new area where ultra-luxury condominiums are sprouting from the ground with average units in the 1000 to 4000 square foot range. This is where ultra-modern buildings such as the Ocean Reef projects, Dupont towers, Grnad Tower, Ocean Drive, Aqualina, Oasis. Also, you can find an iconic building with the form of a sailboat, the JW Marriott. You might be unimpressed by this fact, but remember that the size, quality and conveniences of these properties will often equate to a property worth about 4 to 15 times this amount in the USA. We recommend checking the locations before you buy, as in all big cities some areas have advantages and disadvantages that are not immediately apparent to a newcomer.



Check our [Panama real estate](#) for current listings or please contact our [Panama City office](#) for real estate advice and we will be happy to help you find the right property for your new life.

The district of San Francisco is more "middle-class" and offers excellent housing value. This district is perhaps 2-3 miles from the city center and is considerably quieter. A newer three bedroom condo with say 1500 square feet, with a modest ocean view, could be purchased here in prices ranging between USD 150,000 and USD 250,000 such as the Towers 50

San Francisco Bay. We can also find very affordable projects under construction, such as Park Loft, South Coast tower and Firenze. This area has a wonderful walking and jogging park. Also strategically placed is the Smart Business Center in the heart of San Francisco, with office spaces for commerce near numerous existing commercial activities.

Bella Vista is hosting some wonderful projects like Costanera.

Another area that it's becoming trendier due to its fantastic beach-front location is Coco del Mar, which is located closer to the Atlapa Convention Center and the Corredor Sur highway. It's also minutes away from shopping centers such as Multiplaza and Multicentro, international cuisine restaurants, supermarkets and some of the best schools in Panama City. Here we can find amazing beach-front projects such as Windrose, Panorama, Dal Mare and Ocean Tower.

Closer the shopping and commercial center, El Dorado, we find Plaza Edison, a space up in a hill where we can find beautiful apartments with spectacular views and closer to a plaza where you can find public entity offices. Some of the projects that are built in this area are: Sky Point, EL Mare, Pacific Park Towers.

Panama Pacifico - Just over the Bridge of the Americas, 20 minutes from the City, this major 4,000 acre new development has a variety of uses, including corporate headquarters, residential communities, offices, logistics facilities, a championship golf course, hotels, retail, top schools, health care and other amenities, not to mention many tax incentives for businesses.

***Check our Panama City real estate listings for an overview of available properties in this area.**



Costa del Este - An upscale real estate development in Panama City. One US style residential area called Costa del Este has hundreds of homes and ocean-view condos in prices ranging between USD 300,000 and USD 950,000. It is located just outside the city, en route to the Tocumen International Airport and closer to the highway Corredor Sur. There you can find residential projects under constructions such as Park Lane Santa Maria, Brisz Marina. This area also has iconic skyscrapers such as Lumiere, Pearl, Elevation and others. There are also commercial offices in Times Square, Town Center and the new branch of Punta Pacifica hospital HPP development.

Costa del Este is characterized by its luxury and modern buildings, a high end sophisticated community with unique skyscrapers, such as Maui, a new concept in vertical homes, the answer for modern and vibrant lifestyle for Panama. The perfect balance between technology and luxury residential design that creates exceptional environments. Also in Costa del Este we find the Matisse, a luxury tower with premium location, near exclusive schools of Panama, supermarkets, and the south corridor. Specially designed for those who enjoy the pleasure of living in front of the ocean.

Santa María Golf Community - A private residential golf community located alongside the prestigious Costa del Este neighborhood of Panama City. The Nicklaus Design course will offer players a premier golf experience. Potential real estate buyers will enjoy an array of resort-style amenities, including a grand country club with its world-class athletic facilities. The Reserve is one of the most exclusive gated communities and Solana is a fantastic high rise that overlooks the golf course.

Santa Maria is the new high end, upscale community development in Panama, where luxury living meets the green of beautiful golf courses, with lakes and parks surrounding your home, Legacy takes you to a new dimension of exclusive luxury lifestyle, these apartments have been created to generate an environment ideal for relaxation and personal growth. Enjoy with style, Residences luxurious amenities.

Clayton - Located northwest of Balboa, Panama, with the Panama Canal located nearby. It used to be a US residential base for high ranking military officers. It is now used for residential housing, schools, and the headquarters of the "Ciudad del Saber" (City of Knowledge).

One of the top gated communities in Clayton is Embassy Club community - the most comprehensive residential complex in the city of Panama, created for those who love nature. It has a Spanish Colonial style, in which architecture is intertwined with lush green landscape and consists of approximately 35% of plant areas and protected species. Enjoy Embassy Club Lifestyle center, a residential club ever built in our country. When you purchase your residence or apartment you can enjoy amenities such as a Residential Spa & Fitness Center, Cafe, Ballroom, Owner 's lounge, Game Room, Pools, Tennis Courts, Putting Green among others.

Costa Sur - consists of 44 hectares divided into 6 residential gated communities with 2 urban concepts for conservative and modern tastes. It will be home to 705 families, in addition to a shopping center to meet their needs at the end of the master plan. Costa Linda is located at the exclusive zone of Costa Sur, just minutes away from an ample variety of commercial facilities, such as supermarkets, department stores and shopping malls. Costa Sur village with every facilities you can think of...



Casco Viejo - The Panamanian government incentives for the restoration of the historic Casco Viejo district encourage investment here. This area reminiscent of New Orleans or SoHo years ago abounds with shells of graceful buildings that are crying out for renovation. Already restaurants, ateliers, and apartments are tucked into the graceful squares between the museums, National Theatre and the Presidential Palace: even the dungeons beside the "French" Plaza house a restaurant and jazz club. An investment here will enable you to live in history and the buildings can only appreciate in the years to come.

Santa Familia is a good example. There are still opportunities to purchase large properties on the former US military bases, set among wide avenues, green lawns and coconut palms; many have been converted into small hotels, apartments and palatial homes. The locations are a stone's throw from a rain forest but well-positioned close to the national airport and intercity bus terminal.

Suburban areas are increasing in popularity in the West Panama Province, particularly due to the new bridge over the Canal, Centennial Bridge (Puente Centenario) that opens up the areas of Arraijan, Chorrera and the shores of Lake Gatun for development.

Outside Panama City, excellent properties are available for developers and individuals. The more remote the location the more reasonable the cost but be aware that you may be far from utilities or roads.

Check our properties currently available in Panama City or please click here to contact us.



Beaches near Panama City

One hour or so along the InterAmerican Highway, there are Pacific beaches where small beach communities abound; above them higher mountain locations combine cooler temperatures with ocean views. Retreats in mountain sites like El Valle and Altos de Santa Maria are very popular with expatriates while the up-market resorts of Punta Barco, Vistamar, Casamar, Santa Clara, Playa Blanca, Buenaventura and Coronado with its elegant beach properties and golf course appeals both to expatriates and Panama city weekenders. Foreign investors also are buying properties and homes in other beach developments in San Carlos, Corona, Santa Clara and San Jose.

Check our properties currently available in the Coronado & the Beaches or please click here to contact us.

Punta Chame is the first developed beach on the pacific side, with new beach front developments such as Playa Caracol a lot of investors look into this area due to its proximity to the Panama City, we hold great business opportunity on a beach front Lot for sale

JW Marriott Buenaventura Resort: Just 1.5 hours from Panama City, Buenaventura is Panama's most upscale beach resort community. At the heart of this community is the JW Marriott Buenaventura Hotel, an upscale beach resort with gourmet cuisine, an expansive seaside pool, tropical gardens, spa, and a Jack Nicklaus Champion Golf Course.

Coronado is a coastal city and resort located about an hour from Panama City. It is a vacation town visited yearly by thousands of national and international tourists. Coronado was Panama's first resort development, and for this reason has several years of advantage over other surrounding beach towns. The town has full scale supermarkets, pharmacies, restaurants, ranging from low cost fondas and fast-food restaurants to beachside bistros, medical and veterinary clinics, a hospital, gardening centers, hardware stores, banks, apparel shops, outdoor markets, a shopping plaza and a new shopping mall.

Punta Caelo is a luxury gated community in Coronado. The area of the development is 18 hectares. There are a number of options of apartments, townhouses. The project also includes beach club, sports club and wellness center with all possible amenities. Additional plus is that Punta Caelo is located in Coronado, and it has all necessary infrastructure so one rarely has to visit Panama City without any specific need.

Gorgona is 79 km west from Panama City on the Pan American Highway (about one hour drive). It is located between the towns of Chame and Coronado, 5 minute drive from either town. Gorgona is the closest beach to Panama City. Its beaches and proximity to the city have attracted interest from developers. Gorgona has 4.2 km long beach with white / black sand and turquoise waters.

San Carlos is a township and city head of the district of San Carlos in the province of West Panama, Republic of Panama. The town is the largest trade and economic movement in the district.

***Check our Panama City real estate listings for an overview of available properties in this area.**

El Palmar possesses one of the best surfing beaches, El Palmar Beach, in the area, and a fish market. The beach has surfing waves that kids and adults use to learn how to surf, with its very own surfing school right in front of the beach, many tourists and locales come every Sunday for their weekly surf lesson. In this beach we have the only high rise with beach front apartments near this surfing spot, El Palmar Residences with its privileged position with an amazing offer of beach view apartments

Islands

The real estate in Bocas del Toro offers beautiful Caribbean beach property. Here the islands are surrounded by palm-fringed golden sands and turquoise waters where the rain forest meets the ocean. Here families shop by boat, enjoy water sports and the natural beauty of this wonderful location - better yet it is still affordable. Whether you are looking for a small lot or a small hotel we can help you find it. Most buyers are Americans, Canadians and Europeans. Check out our current listings in Bocas real estate here, but keep in mind that we keep many unlisted properties, so it's always recommended to [contact us](#).

The Pearl Islands, now famous because of the Survivor reality show, the Veraguas Islands including the **Coiba** paradise, declared National Marine Park, and the Parida Islands, off the Pacific coast of Chiriqui; all offer incredible opportunities for purchasing land to develop hotel & residential resorts, marinas & golf clubs in island dream locations, now available for purchase by foreign investors under the new Law.

We repeat that most properties that we have in these areas are unlisted properties, so it's always recommended to [contact us](#).



Mountans and Highlands

Chiriquí is the furthest most western province of Panama bordering Costa Rica. One feels that magic happens here as rainbows arch over the region. Horses freely roam the fincas or farmlands below the majestic mountains. Sublime landscape surrounds you as you climb higher up to the mountain town of Boquete. Sunlight reflects on the streams, rivers and waterfalls running through the canyons. The highlands are adorned with rainforests, volcanic peaks, coffee plantations, orchid farms and a flower-filled towns which truly seem to be enchanted. Lush green mountainsides flank the vibrant town of **Boquete**, which is host to the largest expat community in Panama. AARP magazine named Boquete the fourth best place to retire in the world or the number one destination in Latin America. The assessment was based upon their criteria for the cost of living, natural beauty, access to health care, and ideal climate.

A very special place on our highlands is **Bambito**, where you can find the eco-friendly hotel and condo development, Casa Grande Bambito, with luxury suites and condos for sale, surrounded with nature, trails, mountains and wild animals.

In the cool Chiriqui highlands, the jewel in the crown is Boquete, voted one of the **top four best retirement destinations** in the Western Hemisphere by well-known international magazines.

Due partly to its beauty and temperate climate, buying real estate in Boquete is the choice for many foreign retirees and there is a growing community of expatriates. However, at the same time, it remains a special local community of some of the friendliest people you will ever meet.

The cost of living is very reasonable here as there is no need for heating or air conditioning and the local vegetables and fruit not only taste great but are incredibly cheap.

Your choice can be a lot in a modern development or a more remote finca or coffee farm. Imagine sitting beside a crystal clear stream, enjoying glorious views toward the green hillsides and cloud forests dominated by the extinct volcano, Volcan Baru, and drinking one of the best cups of coffee you have ever tasted.

That is the taste of Boquete! An investment here has tangible residual benefits!

Other nearby areas like Volcan, Potrerillos and Caldera are attracting major investor interest. We will be pleased to show you our Volcan, Boquete and Chiriqui real estate properties and others nearby in this beautiful region, including the Chiriqui beaches, but keep in mind that we keep many unlisted properties, so it's always recommended to contact us.

The Pacific Coast of Chiriqui offers secluded beaches of black or white sand including island property. Developments are beginning at Barqueta, Boca Chica and Puerto Armuelles.

Rincon Beach was conceived and designed to become a "World Destination" for leisure and investment, at the crossroads of North and South America; located one hour south of David, Panama. The 1,000 acre property's center point is a 300 acre gently sloped cove rising from a secluded calm water bay off the Pacific Ocean. The name "Pearl of the Pacific" was given by the current property owner. The planned marina village will become the center piece of the project including retail, commercial, residential, and hotel developments as well as a world-class marina facility. Additional themed residential based communities will include an equestrian center, golf, beach, and estate home developments.

Rincon is perfectly located for leisure and sporting activities. There are numerous world class activities within an hour's drive from our location. From sport fishing at the Hannibal Bank, to touring local rainforests in the Serranía de Tabasará (central mountain range) at 4,000 feet above sea level, there is something for everyone.

During the last 2 years, many 2nd home investors and retirees have purchased in the beautiful beaches of the provinces of Chiriqui, Veraguas and Los Santos.



The best known areas are Boca Chica, Lajas and Barqueta in Chiriqui; Torio, Cebaco Island, Bahia Honda and Santa Catalina in Veraguas; and Venao and Cambutal in Los Santos.

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Most properties that we have in these areas are unlisted properties, so it's always recommended to contact us.

BENEFITS

Benefits of investing in real estate in Panama include:

- US dollar-based economy.
- Low inflation and zero foreign exchange risk.
- Equal treatment of foreign and local citizens.
- Property tax exemptions apply to all new construction.
- Fourth time ranked number one for retirement living.
- Panama is safe.
- Panama has the lowest inflation rate and the most stable economy in Latin America.
- Panama has world-class sport fishing, diving and sailing.
- Panama has no hurricanes or major earthquakes.
- Tourism investments have exemptions from import duties, income, land, real estate construction materials and equipment, taxes etc.

Property Taxes in Panama

Properties with a registered value of USD 30,000 or lower do not pay property tax. For properties of a higher value, they pay as follows: 1.75% from USD 30,000 to USD 50,000; 1.95% from USD 50,000 to USD 75,000; and 2.1% over any property value above USD 75,000. On houses or apartments where the construction permit is issued after Sept. 1, 2006, the following exemptions will apply:

- Value up to USD 120,000: 20-year exemption
- Value from USD 120,000 to USD 300,000: 10-year exemption
- Value over USD 300,000: 5-year exemption.

The exemption is transferable during the exemption period to any new buyer. The land itself is not exempted, and would continue to incur property tax if its value is above USD 30,000.

Rental Income Taxes in Panama

If you receive rental return on your property, you will be liable for income tax up to a maximum of 25% (on returns greater than USD 250,000). However, if you invest in one of the special "tourism zones," you may be exempt from income tax for 15 years.

Transfer Tax

Real estate transfer taxes in Panama are paid by the seller and are 2% of either the updated registered value of the property or the sale price—whichever is higher. The updated value is the registered value, plus 5% per year of ownership. If the property is bought by a corporation, it is customary for the shares of the company to be sold (instead of the property), thus eliminating the need to pay transfer tax.

With all these dreams to turn into reality, we would be remiss if we did not include a few words of caution to help you hold on to your dream. The acquisition of real estate abroad requires careful and professional advice. Panama does not have a multiple listing service for realtors and in many areas unlicensed and unqualified individuals will approach you to sell your property, or they may sell thru the internet. If you use a licensed realtor you have some protection if your purchase is found to be untitled or in contentious ownership, for example some family owned properties cannot be sold unless all parties agree.

A reputable, licensed realtor like BusinessPanama Real Estate research the property before it is offered for sale. It is always wise to ask to see a copy of the real estate license. The realtor must be able to give you the finca number of the property (every property has one regardless of type or size).

BusinessPanama Lawyers will protect your interests and carry out due diligence on the property and check your contract of purchase. It is important to ensure the property is titled with a registered plan. Your lawyers can confirm that your survey matches the registered boundaries even within a development. When purchasing in a development, you should check that the master plan has been approved and utilities and roads are guaranteed. Be aware that there is land offered for sale in Panama that is held by right of possession only.

When purchasing an existing building (or having a home built) your lawyer should check that the building permits and occupancy permits have been granted. Without title to your land, plus all permits, and registration of the mejoras (construction of improvements) on improved land, you will be unable to obtain approval for the tax exemption on your property.

Title insurance is available through a prestigious US company with a history of insuring the validity and authenticity of land titles in the United States and Panama. We have title insurance lawyers to help you.



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Licensed professionals will
assist you on all your
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We can help you with:

- Locating properties in Panama City, Beaches, Islands or Mountains
- Forming a company to own your property
- Legal services to purchase the property
- Applying for your residence program
- Title insurance
- Home owners insurance
- Bank mortgage financing

If you are a developer or promoter, the **BusinessPanama** team of agents, lawyers, advisors and experts will provide you a variety of services from the pre-purchase of the property to all phases of development including structuring, subdivision, financing, contractual, design, environmental, construction, permitting, pre-sale and sale.

For more information, please [click here](#) to contact us.

Panama's Silicon Valley E-Commerce

Internationally minded E-commerce companies or entrepreneurs looking for the ideal center to establish an E-presence need look no further than the "Panama's Silicon Valley". Panama offers many advantages to e-businesses looking to set up offshore, including:

- US dollar-based economy.
- Earthquake-free.
- No hurricanes.
- No active volcanoes.
- No taxes on foreign source income.
- Excellent living conditions.
- Fully bilingual certified engineers.
- Best submarine fibre optic access of the region.
- No pollution.

Panama boasts excellent access to multiple high-bandwidth continental fiber optic networks in telecommunications infrastructure. The extremely low risk of natural disasters such as hurricanes and volcanoes give Panama's telecom sector security and reliability of service as well as a competitive advantage over other offshore jurisdictions and because of its central location in the heart of the Americas, Panama is extremely easy to access from almost anywhere.

Panama's long history as an international banking and services jurisdiction has also resulted in the availability of know-how in Internet technology and information technology, as well as sufficient human resources to install and maintain e-commerce operations and Panama is a zero-tax jurisdiction.

PANAMA IS AN IDEAL LOCATION FOR

Internet service providers



Exchange traffic



E-commerce providers.



Applications outsourcing ASP



New media content providers



Broadband content providers



International Technopark of Panama

Panama's Technopark is a mixture of commercial space, offices, technical facilities and ancillary residential properties. The government is supplying 20 hectares of land with complete infrastructure and buildings worth about \$50 million.

The Technopark opened in January 2000 and is located at the former US Army Base at Fort Clayton along the Pacific side of the Panama Canal, five kilometres from downtown Panama City and a few hundred metres from the fibre optic submarine cables crossing the canal. Since the Technopark project was unveiled in August 1999, 20 companies have signed up as tenants and over 40 have expressed interest. Oracle, Cisco, Microsoft and C&W are a few of the big-name companies that have set up in Panama. A special Technical Cooperation Agreement has also been negotiated with the European Union. Under the agreement, the EU has assisted in Technopark project development, strategic plan definition and in identifying niches in which Panama has a "comparative advantage."

A growing number of companies are also signing up for the "Hi-Tech Incubator" program that has been established to accommodate and stimulate the creation of technology start-ups. The Technopark is attracting interest from a diverse group of businesses that may be divided into three separate, but inter-connected areas:

- Biotechnology, marine resources, reforestation, tropical medicine and aquaculture.
- IT, telecommunications, geographic research and data transfer.
- Multimodal transport, automobile, aviation and marine technology.

Special legislation applies to all businesses operating within the Technopark and includes significant fiscal benefits, immigration advantages and an established infrastructure requiring reduced start-up investment.



The Panamanian Government also granted the Technopark and all entities established within it, the following benefits for an extendible 25-year period:

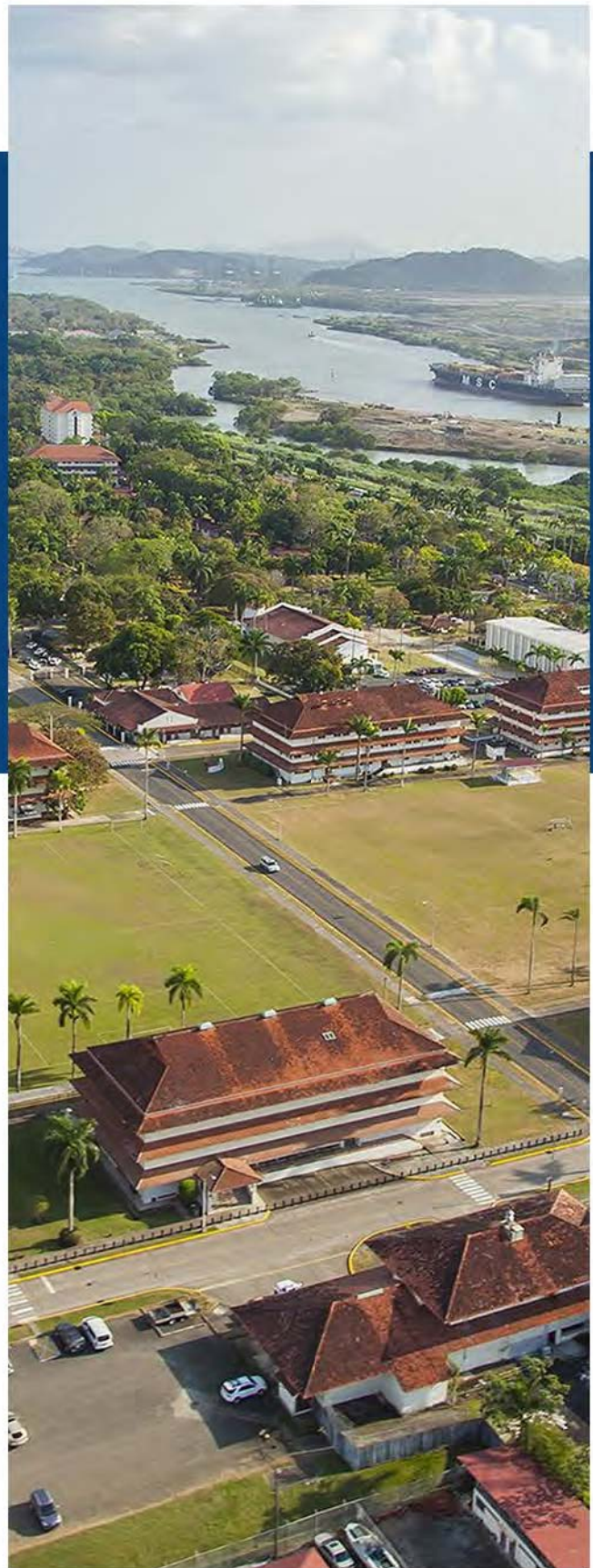
- Exemption of all taxes, contributions, duties or import fees on all machinery, equipment, furniture, vehicles, appliances, or materials necessary for the development of the project.
- Exemption of the movable property transfer tax (VAT) on machinery, equipment, vehicles, appliances and material acquired and necessary for the development of the project.
- Exemption of any tax duty, or lien imposed on the remittance of money abroad, when such remittance or transfer of funds takes place in relation to the purposes of the project.

Special immigration rules are also in place to promote the installation of hi-tech business in the Technopark. And special visas will be granted to expatriates who come to Panama to participate in the development of listed projects.

Private Hi-Tech Parks

Under Law 25 of 1992, Panama's export processing zones were created to promote foreign investment by establishing a special regime to companies exporting goods or services produced or processed within the zones. EPZs can be created as private hi-tech parks to host a variety of companies.

One important highlight is the granting of exclusive rights to EPZ developers to provide their own telecom and energy allowing the possibility of 24-hour redundancy and related services.



The most important incentives granted to EPZs are:

- Exemption of all taxes, contributions, duties or import fees on all machinery, equipment, furniture, vehicles, appliances or materials necessary for the development of the project.
- Exemption of any national direct tax on capital.
- Exemption of income taxes.
- Exemption of any national direct tax on dividends and interests originated from securities issued by the company and traded in local or international markets.
- Special immigration and labour regime

Taxation

Panama is especially attractive to foreign investors for its tax benefits, particularly those involving income tax, which is not applicable to foreign source income. This concept of territoriality is one of the determining factors that make Panama a center of international operations. It is also an important consideration for e-commerce companies looking for somewhere to set up a permanent establishment for their sales and payments for future tax planning.

The government motivates potential investors to base their e-commerce operations in Panama as a virtual nation with an environment where international business is welcomed. Panama continues to encourage foreign capital to enter its domain.

Of course, Panama's imperviousness to change cannot be attributed to accident or chance. There are several foundations on which Panama's extraordinary stability as a base for foreign investment continues to rest.

For example, a company with its headquarters in the US, its manufacturing facility in Mexico, its distribution from Panama's Colon Free Zone and its e-commerce and payment transactions based in Panama can serve customers in North and South America, Europe and Asia.

The extraordinary facilities Panama affords to foreign investors for various hi-tech industries complement the country's investment incentives designed to prevail in a very competitive regional environment.

This, together with the strong growth of Panama's international maritime and financial centres, can be seen as heralds of a second Singapore in the middle of the Americas, a point of reference not to be ignored in the new economy of the 21st century.



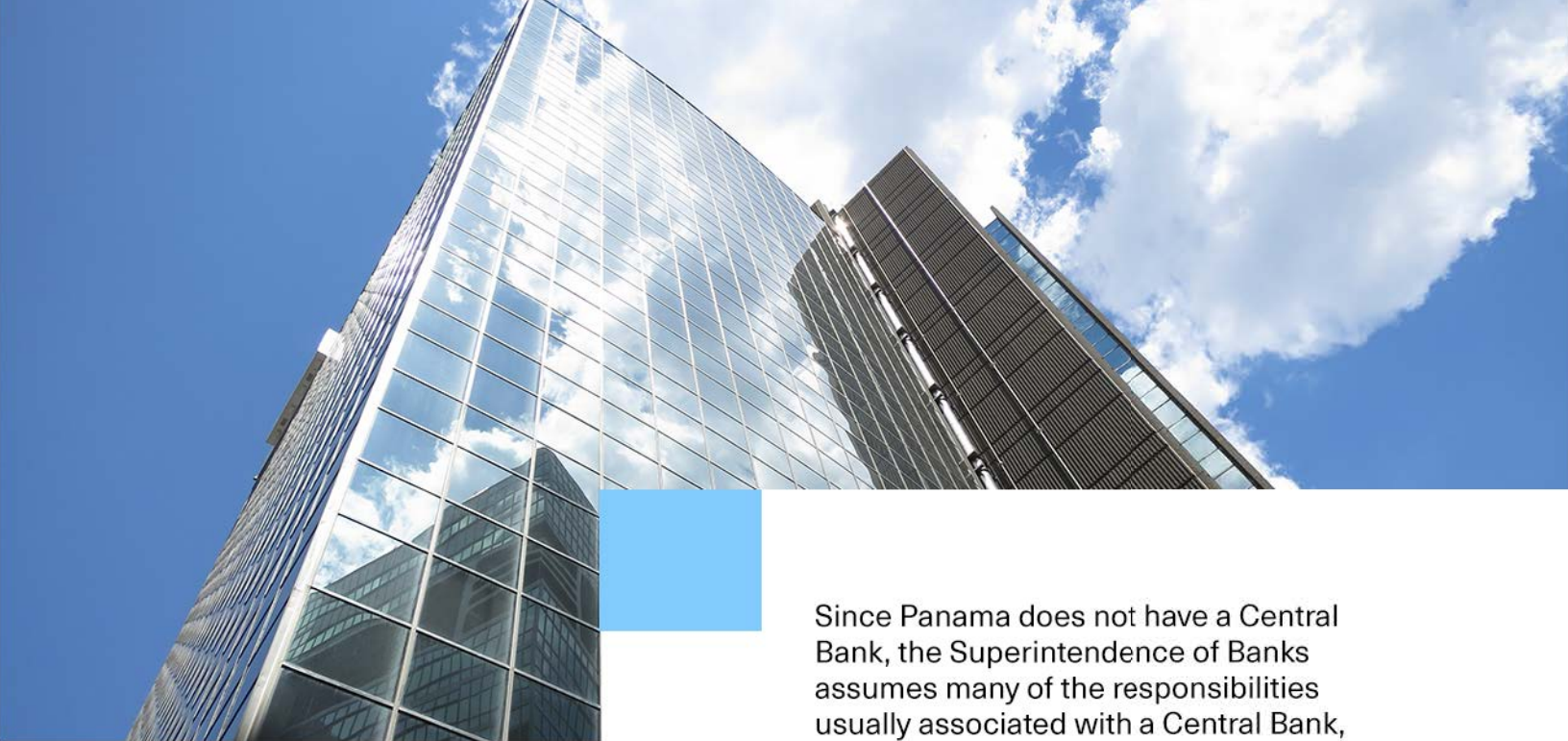
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g. International Financial Center

Banking System

Since 1970, when Panama's banking law was created, the banking sector has been growing strongly. The success of Panama as a banking center is largely due to three factors: geographical location, the large amount of international commerce passing through the country and the development of the Eurodollar market.

There are more of 90 banks in Panama more than 32 countries around the world, especially from Asia, Europe and the Americas. Some of these banks carry out their operations to and from Panama, because of the favorable banking environment. In 1998, there was a banking law reform, which ruled to put the Superintendence of Banks (www.superbancos.gob.pa) in charge of the banking system. The Superintendence is an independent entity, but its work is subject to inspection by the Comptroller's Office. The Superintendence is financed by fees that are paid by each bank operating in Panama.

Since Panama does not have a Central Bank, the Superintendence of Banks assumes many of the responsibilities usually associated with a Central Bank, including the supervision and control of the banking system, issuing banking licenses, establishing financial reserves and the prevention of money laundering

As of the end of November 2021, the assets of the International Banking Center (IBC) totaled USD 132.83 billion, a USD 2.38 billion increase versus November 2020, that is a year-on-year growth of 1.82%, which is the result of increases in the net loan portfolio (2.36%) and the investment component (9.44%). As for the gross loan portfolio, it should be mentioned that the domestic loan segment registered a total of USD 55.40 billion, an increase of USD 694.3 million or 1.3%. Credit shows clear signs of recovery, including corporate [loans] (e.g. the commercial and industrial segments are already in positive numbers), but their conclusive reactivation will become more evident as demand and economic activity rise.

Panama has unique advantages for banking, financial and commercial businesses, due to the absence of a central bank, a monetary authority and paper currency. Another fundamental characteristic is the use of the US dollar as the currency legal tender.

Securities

Panama's Securities Industry is governed by the Securities Market Superintendency. This is an autonomous regulatory agency for the investment sector, operated by full-time Superintendent Director. Securities transactions may be carried out by securities houses, brokers, and banks with international licenses that are registered with the NSC.

The following subject areas are regulated investment opportunities in Panama that are considered part of the Securities Industry:

Investment Funds

While many countries, including the US and Canada restrict their residents from investing in Offshore Mutual Funds, it is possible to invest in Panamanian Mutual Funds by making investments through Panamanian corporations. This allows all people to invest freely in Mutual Funds. Mutual Funds are not obliged to declare or pay Capital Gains Tax in Panama. They are also tax exempted for any profits generated outside of Panama. All investment funds must be registered with the NSC and possess the correct licenses. While there are administration costs associated with having an Investment Fund in Panama, investors will usually find that such administration costs are significantly lower than in their home countries.

Initial Public Offerings (IPOs)

Opportunities with Initial Public Offerings exist within Panama's securities market, which can provide high returns on your investment. In order to participate in an Initial Public Offering, investors should discuss these opportunities with an Attorney in Panama to decide the best approach to making such an investment.

Private Placements

Panama, as most countries, offers many opportunities for Private Placement Investments, in which the investor would place his or her money in a private company in return for a share of the corporation. The investor might choose to do this because the company is about to be floated on the stock market, or simply because it appears to be a good investment opportunity that will yield a high return.

In order to operate as a stock exchange under the NSC, the exchange must have a minimum of USD 1,000,000.00 in proven deposits. Furthermore, exchanges must report all transactions, prices, trading volumes and any other relevant data at the close of each day. At the end of each year, an independent CPA must carry out an audit of the financial activities of the exchange.

Insurance & Reinsurance

Insurance is one of Panama's most important service sectors. Similar to the banking sector, the insurance sector is regulated by the Superintendence of Insurance and Reinsurance (SIR). Any insurer wishing to offer Individual/Group Life Insurance, General Insurance or Bonds must be duly regulated with this entity. In order to operate, insurance companies must deposit and maintain a cash reserve of no less than USD 5,000,000.00.

The value of written premiums contracted by 3.2%, mainly, personal accidents by 38.9%, automobiles 16.3%, and technical lines by 26.8%.

Positive changes were registered in: Health 6.1%, collective life 2.2%, bonds in 10.4% and other transport (cargo transport and helmet) 9.6%. Claims decreased 18.5%. Insurance premiums in Panama decreased 3.2% to US \$ 1.5 billion in 2020, according to local insurance association Apadea.

The entity reported that the blow was relatively mild compared to the severe economic contraction that the country experienced, a recession that led a rating agency to project a further deterioration of the sector in 2021.

The drop is a consequence of the effects of the new coronavirus pandemic, especially in the automobile sector, but it is less than the double-digit contraction expected for the economy and also more moderate than what the industry itself expected.

Auto premiums were the insurance line that was hit the most in Panama, falling 15.3% year-on-year to US \$ 258mn in December due to the strict lockdowns adopted by COVID-19, which reduced sales of new cars and prompted some insurers to offer special discounts to attract customers.

The decrease was partially offset by an increase in health premiums, the line with the highest volume of premiums in Panama. Specifically, 2020 closed with written health premiums of US \$ 333mn, 5.74% more than in 2019.

Captive Insurance Companies

The Superintendence of Insurance and Reinsurance is also the governing body of Captive Insurance Companies, which must operate according to the regulations stipulated in Law 60 of 1996. In order to operate within Panama, they must possess a proven capital of at least USD 150,000.00.

Captive Insurance Premiums are exempt from tax in Panama, because they can only insure foreign risk.

Reinsurance

Reinsurance is the business of insuring the risks already insured by an insurance company, thus reducing the risk for the insurance company. When discussing reinsurance in Panama, there are two important factors to consider: local and foreign. Local risk covers anything pertaining to people or objects who live, or are located in Panamanian territory, whereas foreign risk pertains to anything located outside of Panama.

Trusts Business

A trust is one of the most effective legal mechanisms in Panama. It allows the owner to transfer ownership or assets to another person, or trustee, so that person can administrate or dispose of the assets either permanently or temporarily without the corporation having to pay any transfer taxes.

Panama had already enacted in 1925 the first trust Law in Latin America. Later on, Law N° 1 and Decree 16 of 1984 were at the time of its enactment one of the most innovative laws for wealth planning in Latin America. Law N° 1 was amended and updated by means of Law 21 of 2017

Trusts in Panama can be either revocable or irrevocable. The owner of the trust may choose various trustees and with a revocable trust, the trustee can be changed or replaced. In the case of an irrevocable trust, the successors of the trust should be named at the time of choosing the first trustee, in case of death.

The trust's assets are considered separate from the owner's wealth and cannot be sequestered or seized, except in the case of misadministration of the trust.

Upon the death of the trust owner, the trustee will continue to administer the funds for the time stipulated upon establishing the trust. Trusts can be moved to another country, but at this time, they stop being regulated by Panamanian Law.

Family Offices

Panama's reputation as a paragon of financial stability has prompted renowned family offices to relocate to the country and has also led legal and corporate law firms to offer family office type services.

Family offices are on the rise around the globe as they can offer high-net-worth clients a more convenient way of protecting and growing their fortunes. As the financial crisis has brought down the level of trust and confidence in large banks, a gap in the market has appeared which Panama's financial services sector intends to take full advantage of. Offering the entire spectrum of services, the country's firms have built up a reputation of personalized assistance and tailored solutions over the years that now allows them to cater for every aspect of a client's wealth management need.

Wealth creators and their families, heirs who benefit from old fortunes, as well as newly rich tech and life sciences billionaires and professional athletes, are today looking at Panama as a location to manage their assets. They will find service providers who manage everything for them: tax structuring, investment management, estate planning as well as inheritance and wealth transfer services. In addition, efficient law and accounting firms are providing an array of family office services.

One of the key attractions for family office providers is the country's regulatory framework that surrounds the wealth management industry and the smooth licensing process for trustees, foundation administrators and investment advisors. In addition, setting up a family office is expensive; it often costs more than US\$1 million a year to run a single-family office due to the lack of economies of scale.

By locating both the administration and asset management functions in Panama, multi-family offices can share in those services and costs between different families and their advisors can benefit from the country's low administrative costs.





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Finance Companies

There are not many finance companies in Panama, since nearly all financing is carried out by banks. However, they do exist, and are regulated by the Ministry of Commerce. They are considered separate from banks and other similar entities and thus are not regulated by the Superintendence of Banks. In order to operate as a finance company, there must be a paid-in capital of at least USD 500,000.

Leasing

Both banks and other companies may engage in leasing activities within Panama, as long as they have the necessary permits issued by the Ministry of Commerce. Benefits are similar to those offered in most countries, including:

- Depreciation
- Ability to deduct expenses related to the leasing contract. Lease payment are exempt from ITBMS (sales tax).

In order to operate as a leasing company, the company must be the owner of the goods, and all lease contracts must have a minimum duration of three years.

Remittance Houses

Remittance is one of Panama's most important industries, and remittances to Panama from abroad constitute a significant part of the countries income. Likewise, there are many remittances from Panama to other countries. All remittances, when done through a licensed remittance house, are regulated by Law 48 of 2003.

The following requirements are needed to start a remittance house:

- Paid-in capital of at least USD 50,000.
- USD 50,000 bond paid to the National Treasury.
- Type A Commercial License.





h. Logistics Panama

Panama Logistics Hub has positioned itself as the largest logistics conglomerate in Latin America.

A logistics platform is the combination of infrastructure, technology, processes, regulations and people that enable the movement, transformation and storage of products. Much of Panama's logistics platform has been developed to support international trade. The logistics platform is organized into logistics business components. Panama has a set of logistics components that have been working in an organic and coordinated system for almost a century. These components include seaports, airports, special economic zones, and a network that includes a transisthmian railroad, expressway, and roads geographically well positioned to be a hub for regional and international trade (For further, go to [Georgia Tech Panama Logistics](#)).

The Panamanian port system had the movement of 8,623,927 TEUS during 2021. The air transportation platform has been developing during the last few years, where many industry players have established large scale operations by using Tocumen International Airport as a hub for passengers and cargo.

The Colon Free Zone and Panama Pacífico are two examples of Special Investment Regimes dedicated to merchandise reexporting and promoting high-tech activities leveraging the transport connectivity to other countries and a variety of fiscal, migratory and labor benefits.

These logistics clusters interact among them and facilitate the flow of goods and passengers by using the existing local network that includes a railroad and a road and highway system.

In addition, Panama has the largest merchandise redistribution free zone in the Western Hemisphere - the Colon Free Trade Zone - as well as the Panamá-Pacífico Special Economic Area, an area reserved for the production of high technology services, as well the import, export and re-export of merchandise and other goods.

The Panama Canal is the principal component of the logistics hub that also contains a system of container terminals between the Pacific and the Caribbean,



supported by the inter-oceanic railway, a maritime hub with ports on both the Atlantic and the Pacific Coasts, and an International Air Transportation Platform.

Panama's geographical position enables it to offer a modern logistical platform via sea, land, and air to both domestic and foreign investors, which has been one of its most valuable assets, presently serving as a natural access center for the markets of over 3.5 billion people.

A major project is the expansion of the Tocumen airport, which was left unfinished by the previous government mainly because the construction company was Odebrecht. The new terminal consists of a building of 80,000 square meters and 20 boarding gates, at an estimated cost of more than US\$800 million.

Lastly, the Panama Canal Railway Company (PCRC) provides an efficient high-volume transshipment system, connecting the Pacific Intermodal Terminal, located contiguous to the Port of Balboa, and the Atlantic Intermodal Terminal, located next to the Port of Manzanillo International Terminal and the Colon Free Zone. Currently it handles 500,000 containers per year, but it has a maximum capacity of 2,000,000 containers per year. The PCRC also offers transportation to passengers, with a capacity of 310 passengers per trip. With passenger stations on both sides, people can travel next to the Canal and through the rainforest.

Of course, Panama remains the maritime hub of the Americas. Its Canal is the quickest way to cross cargo between the Atlantic and Pacific oceans.

Moreover, since taking back control from the US in 1999, it has done a great job of building the supporting infrastructure – the ports, railway, airports, and free zones – needed to create a world class logistics platform.





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i. Agro Industry

Panama just passed Law No. 196 of 2021 that creates the special regime for the establishment of operation and development of Agro Parks and dictates provisions for their operation.

In the agro-industrial sector, Panama has an exceptional natural advantage that makes it different from the other countries in the region. The high amount of daylight hours, the absence of extreme summers, and high soil and water quality contribute to the fruit's greater sweetness, allowing Panama to position its exportable goods into markets such as the United States, Central America and Europe. This sector is mostly locally oriented and needs more investment in areas other than the traditional rice and banana sector. The biggest opportunities are the so-called non-traditional products which include pineapples, melons, cucurbits, tubers, coffee, flowers, orchids, plantains, and salmonids, among others.

Highlights

- Technical assistance to producers to identify markets and comply with Global-Gap certification standards.
- Research and Development (R&D) will be promoted, with the participation of national and international scientific centers
- Credit and tax incentives.
- The producers will have access to financing funds through the National Bank of Panama.

Tax Incentives

Companies holding a license, and those authorized to establish themselves within an Agro Park will be entitled to the following incentives and benefits:

1. Tax exemption on construction materials, equipment, machinery, vehicles and furniture for its activities for a period of five years from the issuance of the license;
2. Fixed import tax at 3% for raw materials, semi-finished or intermediate products and other inputs that enter into the composition or the process of making the products;
3. Property tax exemption on new commercial and industrial improvements for a term of twenty years, from the issuance of the occupancy permit;
4. Right to deduct, at a rate of 20% per year, losses suffered during the first two fiscal periods from the start of activities, deductible in the following five fiscal periods;
5. Income tax rate reductions, corresponding to 50% of that established in the Tax Code, during the first five years;
6. Dividends and complementary tax rate reductions, corresponding to 50% of that established in the Tax Code, during the first five years;
7. Special customs tariff regime.



J. Mining, Oil and Gas

Minera Panama, a subsidiary of Canada's First Quantum Minerals, one of the world's top copper producers, announced that the mine reached its full production in 2019. MPSA's mining concession, which consists of 12,955.1 hectares, is located 120 kilometres west of Panama City and 20 kilometres from the Caribbean Sea coast, in the district of Donoso, Colon province, in the Republic of Panama.

Minera Panama is a US\$6.7 billion investment and has 3.0 million tons of proven and probable reserves. This mine thus constitutes one of the largest new copper mines inaugurated worldwide in the last decade. The production complex includes two open pits, a processing plant, two 150 MW power plants and a port. Commercial production began in 2019 and at current full capacity the plant will process 85 mtpa of ore and produce more than 300,000 tons of copper per year along with gold, silver and molybdenum.

In the Los Santos province in south-western Panama, 255 km from Panama City, is the Cerro Quema project - a smaller, five-year lifespan mine owned and managed by Canadian company Orla Mining Ltd. The concession grants Minera Cerro Quema, a wholly owned Panamanian subsidiary of the aforementioned company, the exclusive rights for the extraction of gold and silver for 20 years, over an area of 768 hectares. They are getting ready for construction financing.

Additionally, there are a number of exploration projects ongoing and a lot of potential.



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K. Incentives Laws

Investments under the Investment Stability Law

The objective of the Law No. 54 of 1998, also known as the Investment Stability Law, is to promote and protect foreign investment in Panama. This Law guarantees equal rights for all foreign and international investors, in terms of investments and business practices, with that of national investors. In other words, foreign investors have the same rights and duties as national ones. It also guarantees the free availability of the resources generated by their investment, the free repatriation of capital, dividends, interests and utilities derived from the investment, and the free commercialization of their production. Moreover, the right of ownership of foreign investors has no limitations other than those established by the political Constitution and the Law.

Permitted activities and sectors:

- Tourism
- Agricultural Exports
- Mining
- Commercial and Oil Free Zones
- Construction
- Electrical Energy Generation
- Industrial Forestry
- Free Trade Zones
- Telecommunications
- Development of Ports and Railroads
- Projects regarding Irrigation and Efficient Use of Hydraulic Resources
- Activities under the Multinational Headquarters Incentives
- Activities under Panama-Pacifico Special Economic Area

In order to be eligible for the guarantees, mentioned below, the investor must submit to authority a plan to invest the minimum sum of US\$2,000,000..

Guarantees

- Legal Stability, unless the provisions are related to reasons related to public utility or social interest.
- Tax Stability within the National order, with exception of indirect taxes (i.e. ITBMS, ISC, etc.).
- Tax Stability within the Municipal order.
- Customs Regimes Stability derived from Special Laws.

These guarantees are valid for a period of ten (10) years. The Law also provides the investor with a compensation mechanism should the State, for reasons related to public utility or social interests, expropriate an investment protected by this Law.

Laws Discussed

Law No. 54, July 22nd, 1998, whereby Measures for the Legal Stability of Investments are Issued

Panama's Film and Audiovisual Industry Incentives

The government created stimulus for the film and audiovisual industry by enacting Law No. 16 of 2012. The Law:

- Creates the Panama Film Commission and its Technical Secretariat.
- Creates the National Movie Register for foreigners.
- Regulates the film and audiovisual industry throughout the national territory.
- Grants fiscal, customs, labor and migratory incentives for foreign productions in national territory, with special areas being assigned for the development of the film and audiovisual industry.
- Eliminates of bureaucracy and guarantees efficient process for productions.

The benefits for foreign productions, granted by the Technical Secretariat of the Panama Film Commission, are:

- A "One-Stop-Shop" for all paperwork.
- Expeditious processing of Migratory Permits for foreign personnel.
- Labor Permits for foreign personnel.
- Temporary customs custody of equipment without bonded guarantee.
- Fiscal incentives for special assigned areas, as part of the development of the film and audiovisual industry.
- Permits for public locations throughout the entire national territory.
- Assistance with paperwork required by the public services.
- Associating with national producers, technicians, casting agencies and personnel.

Tourism

Law No. 80 of 2012 dictates various incentive policies for the promotion of tourism in Panama. The Panamanian Tourism Authority (ATP, by its acronym in Spanish) offer fiscal, land and customs tax incentives and exemptions to:

- Builders of hotels and hostels outside Panama City.
- Existing hotels with less than 50 rooms that obtain a quality certificate.
- Enterprises that offer touristic products like conventions, exhibitions, travel promotions, cruises, ecotourism, among other (each activity requires a minimum number of foreign attendants or passengers).
- Enterprises that offer nautical tourism and own.
 - cruises, yachts, marinas and/or docks.
- Enterprises that offer nature, adventure and beach tourism.
- Enterprises that offer special touristic products approved by the National Tourism Council.

The requirements and the application expiration dates vary according to the tourist activities. All permits are granted by the ATP and all necessary documentation must be delivered to them. Law 82 of 2019 amended the deadline to apply for the incentives to December 2025.

Law No. 2 of 2006 governs all concession related to touristic investment. This framework dictates all of the requirements and obligations needed to invest in large tourist projects that require an extensive portion of land. In order to qualify for this type of investment, all necessary documents must be submitted to the Ministry of Economy and Finances (MEF, by its Spanish acronym). Subsequently, the MEF will analyze the project and either accept or decline it.

Law 80 of November 8th, 2012 which establishes incentive regulations for the promotion of tourism activity in Panama, amended in its article 9 by Law 122 of December 31st, 2019 and regulated by Executive Decree 364 of July 23rd, 2020, establishes that investors are allowed to obtain a 100% tax credit on income tax, for their investment in the acquisition of bonds, shares and other financial instruments issued by companies that are registered in the National Tourism Registry, including real estate investment corporations duly registered at the Superintendence of the Securities Market, in a stock exchange in the Republic of Panama and in the National Tourism Registry, this with the purpose of promoting investment and financing for the development of new tourism projects or new stages and extensions of already existing tourism projects, in both cases outside the District of Panama.

Laws Discussed

Law No. 2 of 2006, which Regulates the Concessions for Touristic Investment and the Disposition of Island Territory for its Touristic Development, and Issues Other Provisions

Law No. 80, November 8th, 2012, Whereby the Rules for Panamanian Tourism Promotion Incentives are Issued

Law No. 82, April 18th, 2019, which Amends Law No. 80 of 2012, whereby the Rules for Panamanian Tourism Promotion Incentives are Issued

Law 122 of 2019 about tourism incentives.

Light Manufacturing Incentives

Law No. 76 of 2009 was implemented to encourage the development of industry in Panama. It was further amended by Law No. 25 of 2017, which creates a new institutional framework and a normative body that encourages the competitive development of the national industrial and agroindustrial sector. The Laws are applicable to the agricultural, manufacturing, aquaculture transformation, forestry and fisheries industries, including micro, small, medium and other industrial enterprises.

As part of the Laws, the Certificate of Industrial Development has been established.

This Certificate offers investors refunds of up to 40% (subject to specific industrial, research and development activities) on the total value invested, profit reinvestment, workforce training and hiring costs of any new production-related staff. This non-transferable document is valid for a maximum of 8 years and can be used when the company fulfills their tax, fee and contribution obligations.

Laws Discussed

Law No. 76, November 23rd, 2009, Which Dictates Measures for the Promotion and Development of the Industry

Law No. 25, May 23rd, 2017, which Modifies and Adds Articles to Law 76 of 2009, Which Dictates Measures for the Promotion and Development of the Industry, and Dictates Other Provisions, and Issues Other Provisions

Renewable Energy

Since the 2000's, Panama has been seeking to promote the diversification of its energy matrix in order to ensure the supply of the demanded energy, to mitigate the effects of climate change and to reduce dependence on hydrocarbon imports for the generation of electricity. As such, Law No. 45 of 2004 was passed to stimulate the creation of hydroelectric generation systems an incentive scheme. In 2011, 2012 and 2013, new laws were enacted that incentivized the construction and operation of biomass, wind, natural gas and solar power plants.



Fiscal benefits that apply to energy generation through the use of biomass include: income tax exemption, VAT exemption for imports, and commercial and industrial license taxes exemption. Wind-, solar- and natural gas-based power generation facilities benefit from:

- Tax credit of up to 5% of the total direct investment value (applicable on income tax, for civil works that become public infrastructure)
- Custom duties exemption for equipment.
- Machinery, materials, spare parts and others imports necessary for the plants' proper functioning.
- The possibility to use an accelerated amortization method to depreciate tangible assets.

Additionally, natural gas generation equipment manufacturers within Panama are exempted from paying all national taxes for 20 years, while wind power generation equipment manufacturers and installers are exempted for 15 years.

Laws Discussed

Law No. 45, August 4th, 2004, Which Establishes an Incentive Regime for the Promotion of Hydroelectric Generation Systems and Other New, Renewable and Clean Sources, and Issues other Provisions

Law No. 42, April 20th, 2011, Which Establishes Guidelines for the National Policy on Biofuels, and Electricity from Biomass, in the National Territory

Law No. 44, April 25th, 2011, Which Establishes the Incentive Regime for the Promotion of the Construction and Operation of Wind Power Stations for the Provision of the Electricity Public Service

Law No. 41, August 2nd, 2012, Which Establishes the Incentive Regime for the Promotion of the Construction and Operation of Generating Plants, Based on Natural Gas, for the Provision of the Electricity Public Service

Law No. 37, June 10th, 2013, Which Establishes the Incentive Regime for the Promotion of the Construction, Operation and Maintenance of Solar Power Plants and/or Installations



Reforestation

Under Law No. 24 of 1992, all direct and indirect forestry investments will be considered in their entirety as deductible expenses for income tax purposes, as long as the amounts invested come from a source other than this sector. Moreover, some migratory and fiscal incentives are offered for reforestation activities. Panamanian law grants reforestation visas based on ownership of a minimum of 5 hectares (about 12.4 acres) of timber land under the investor's own name or the name of a corporation in which the investor has at least a 51% share. A type of reforestation visa has been previously discussed in the "Investor Permits and Visas" section.

Additionally, Law 69 of 2017 created the Forestry Incentive Program of the Million Hectares Alliance, which grants non-repayable direct financing and exemptions from the income, property, value added, and import taxes, to beneficiaries of the Program, for a period of 20 years from the validity of this law. Beneficiaries are defined as being natural and legal persons who are the owners, lessees, concessionaires, or beneficiaries of land titles that are involved in the following activities:

- Protection and conservation of natural forests
- Assisted natural regeneration
- Restoration of natural forests
- Agroforestry systems
- Sustainable forest management
- Commercial forest plantations
- Processing of timber and non-timber forestry products
- Plant nurseries
- Forestry research, development and innovation
- Sustainable export of forestry products.

Laws Discussed

Laws Discussed

Law No. 24, November 23rd, 1992, Which Establishes Incentives and Regulates the Reforestation Activity in the Republic of Panama

Law No. 69, October 30th, 2017, Which Creates an Incentive Program for Forest Cover, and the Conservation of Natural Forests, and Dictates Other Provisions

Panama's PPP Regime

Panama has adopted its first public-private partnership (PPP) regime through Law 93 of 2019 (the "Law"), regulating the institutional framework and processes for the development of investment projects under the PPP category, seeking to promote the development of infrastructure and public services in the country, contribute to economic growth, employment creation, competitiveness, and to improve the living conditions of the population.

Facing fiscal constraints and in some cases technical limitations, Panama anticipates benefiting from this initiative, attracting private investment, and financing for the development of important projects.

PPP project's scope of work may include design, construction, reparation, financing, expansion, exploitation, operation, maintenance, administration and/or supply of a good and/or service to the contracting public entity and/or to the end users of any public service.

The Tender Process

The tender documents will be made public through a publicly accessed website with sufficient time for its review by interested parties. The publication of the tender process will include the date of a homologation meeting where all interested parties may discuss the tender documents with the contracting public entity. Also, the publication will include the date, place and time for the bid proposal submission.

PPP Agreement

The maximum term for PPP agreements is 30 years, with a possible extension of up to 10 additional years. The Law recognizes the possibility of further extensions (up to five years), due to delays attributable to the contracting public entity.

All PPP projects must be at least fifteen million dollars (US dollars), except for PPP projects undertaken by municipalities, which will be subject to what the regulation of the Law establishes.

In the same line, the Law enables the holding company of the PPP agreement to transfer the PPP agreement or its rights under the PPP agreement, previous to the authorization of the Ente Rector, to legal entities that meet the initial requirements applicable to the holding company of the PPP agreement, provided that they are not subject to the prohibitions and disqualifications established by the Law.

In the same line, the Law enables the holding company of the PPP agreement to transfer the PPP agreement or its rights under the PPP agreement, previous to the authorization of the Ente Rector, to legal entities that meet the initial requirements applicable to the holding company of the PPP agreement, provided that they are not subject to the prohibitions and disqualifications established by the Law.

Additionally, the Law creates a special pledge in favor of the creditors, that may be agreed between the holding company of the PPP agreement and its creditors. This special pledge may include (i) the rights of the holding company of the PPP agreement under such agreement, payments of the contracting public entity to the holding company of the PPP agreement, and in general all receivables of the holding company of the PPP agreement.

Laws Discussed

Law No. 93 of September 19, 2019



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Special Economic Areas

a. Special Economic Zones

Panama's Special Economic Zones (SEZ) are located in different strategic locations in the country, in which investors can get tax benefits, migratory and labor flexibilities that are aimed to promote the development of specific economic activities.

Colon Free Zone

The Colon Free Zone (CFZ) began operations in June 1948, in a segregated area of 35 hectares, adjacent to Downtown Colon. It boasts a strategic location at the Atlantic entrance to the Panama Canal, and only 90 kilometers from Panama City. Its strategic location has helped it become the second largest Free Zone in the world, after Hong Kong.

It is an international hub for import/export and storage operations.

The main products imported by Colon Free Zone are pharmaceuticals and chemical, textiles, machinery and electrical, shoe wears and head wears. These products have mainly been imported from China, Singapore, United States, Taiwan and Mexico. These products are re-exported to the Latin American market, mainly to Venezuela, Colombia, Puerto Rico, Panama and the Dominican Republic.

Companies operating within the CFZ can also sell to companies based in Panama, as long as the import taxes have been paid on the items sold. Income tax is also levied on items sold within Panama, but people working within the CFZ must pay income tax to the Panamanian government. As far as export operations are concerned, companies may sell merchandise for export or re-export purposes. They may also charge commission and service charges for storage, moving and packing, as long as the items are being moved abroad.

Additionally, many banks from diverse countries throughout the world that make up the International Financial Center of Panama, more than 10 participate in the financial activity of the Colon Free Trade Zone from their offices and branches located within the Free Trade Zone commercial center.

Panama Pacífico

The Panama Pacifico Area is located close to the Pacific entrance of the Panama Canal, in the former Howard US Air Force Base. It is the newest Special Economic Zone created in Panama, with mixed-use real estate developed by London & Regional Properties, the world's largest real estate developer. It is a special economic zone with residential and recreational areas, as well as Industrial Zones with approximately 177 established companies. Out of this, 90 companies are fully operational. With an approximate working force of about 5,500 direct employees, an approximate of 90% is Panamanian. Among those multinationals it can be mentioned Dell, Caterpillar, Procter and Gamble, and 3M.

The vision of Panama Pacifico is to be Latin America's first complete master-planned community. The project is expected to cost USD 405 million in real estate development. The plan includes 20,000 new residences and 40,000 permanent jobs.

With this ambitious project, that includes economic and legal benefits, the Republic of Panama promotes the development of different industries such as logistics, sea and air transportation, high-tech, etc.

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Any type of business can relocate to Panama Pacifico. There are several options to lease or buy an operational base in one of the following environments:

- International Business Park: Ideal for headquarters, call centers, offices and light assembly plants. Construction is already underway
- PanAmerica Corporate Center: Ideal for logistics, assembly, freight management and manufacturing operations. Construction is already underway.
- Town Center – Retail Opportunities
- Fiscal Benefits of Operating in Panama Pacifico

Tax Incentives for Operating in the CFZ

- Tax Incentives for Operating in the Panama Pacifico
- Exemption from import duties (unless goods are sold within Panama)
- Exemption from export or re-export taxes.
- Income tax exemption for specific business activities as described in Tax Law 41
- Dividend tax exemption for specific business activities
- License tax exemption
- Real estate property tax exemption
- Exemption from taxes on international phone calls.
- Municipal tax stability guaranteed for 10 years from date of registration
- Exempt from withholding tax on royalties paid to foreigners for specific business activities
- Exempt from capital gains tax on company stock transfer
- Stamp tax Exemption

Employment Benefits of Operating at Panama Pacifico

- 25% fixed surcharge for overtime
- Weekly resting day doesn't have to be Sunday like in the rest of Panama.
- Companies may remain open on Sundays and holidays
- Negotiable vacations
- Increased freedom for terminating labor contracts
- Allowance for foreign specialized workforce of 15%



Panama as a Hub for Call Centers and BPOs: Nearshoring and Connectivity

Among several keen to become nearshore suppliers including Colombia, Costa Rica, Uruguay, the Dominican Republic is the address of the world's other major commercial waterway, Panama. There are perennial obstacles to overcome first however in many Central American nations, such as prohibitively expensive transportation costs and infrastructure in insufficiency, as well as off-putting bureaucracy. Fortunately, this is not the case for Panama.

As Nearshore Americas reveals Panama economy saw a annual growth rate of 5.6% over the five years to 2019, sprinting to the higher echelons of the global league, and as an English speaking nation, it is a prime nearshore destination, and...

Nearshoring is also a model very much applicable in the services sectors, notably taking the form of Business Process Outsourcing (BPO) – where call centers boast multi-lingual staff as capable as a more costly workforce on US soil. Indeed, Panama has excelled in the international services market, and services overall account for around 70% of GDP.

Panama has also made notable inroads higher up the services value chain, giving the more familiar global offshore addresses of India.

The term **“Nearshoring”** has become a trendy name for a practice of outsourcing or moving business processes to a nearby country. It is important to understand that COVID-19 disrupted the way the supply chain was designed, whereby most companies had all their “eggs in one basket” and manufactured in one single place.

Reality struck when a limited capability to produce goods in other parts of the world (nearer) to the end consumer had not been foreseen, hence making nearshoring a new solution to possible future crises.

In this sense, finding alternatives to make global commerce flow is not new to Panama, By nature, we are a service-driven economy and from historic times we have been facilitators in doing business. We are also not new logistics; on the contrary, we have a history and key role from the Spanish colonization of the Americas, where goods converged for transfers to Europe, to the railroad constructions that provided a secure and alternate path from the west coast to the east coast of the US for both gold and mail; and afterwards. Panama Canal constructions, a megaproject that has enabled Panama to offer continuous global services moving, all sorts of products quickly and efficiently to boost trade.

Furthermore, we have matured to become a multimodal logistics center. We are currently the leading Logistics and Maritime Hub of the Americas with 5 major shipping ports, 3 on the Atlantic and 2 on the Pacific. The geographical location of Panama together with the continuous development of large infrastructures motivates both nationals and foreigners to look at Panama a great potential distribution center for the markets of the US, Canada, and Latin America through cargo transshipment and as a great consolidation center. Panama's high level of connectivity attracts investors and multinational companies to the country.

Law No. 52 of 2018 provides fiscal, migratory and employment benefits to call centers established in Panama for commercial operations.

The application for a concession to provide call center services must be delivered to and approved by the Public Services National Authority (ASEP, by its Spanish acronym). In addition to the following incentives, special labor provisions are more flexible than those for other types of businesses that operate in the rest of the Panamanian territory.

Fiscal Incentives

- Exemption from direct and indirect taxes, fees, contributions, and charges, (with the exception of those established in this Law and the fees charged the ASEP) relating to the services covered by the concession.
- Exemption from income tax for the provided services (subject to the compliance of certain conditions)
- A 5% dividend tax rate decreased to a 2% complementary tax in case there is no distribution of profits.
- A yearly tax equal to 0.5% of the company's capital (up to a maximum of US\$50,000).

Immigration Incentives

- Permanent Resident Permit for a Call Center Investor - issued to individuals who have invested a minimum of US\$250,000 into a call center. Valid for 2 years (subject to the investment conditions), after which the investor may apply for a permanent stay.
- Temporal Resident Permit - foreign personnel hired in trust, executive, expert and/or technical positions will have the right to request such permit. Valid for the duration of the work contract.
- Short Stay Visa for Businesspeople and Investors by Special Laws - issued to foreigners who wish to come to evaluate the possibilities of investments or to carry out transactions or business related to call centers. Valid for 9 months (subject to the requirements established by the migratory regulations).

Laws Discussed

Law No. 52, October 17th, 2018, Which Regulates Call Centers and Dictates Other Provisions
– Ley No. 52 del 17 de octubre de 2018, Que regula la actividad de centro de llamadas para uso comercial (call centers) y dicta otras disposiciones

Petroleum Free Zones (PFZs)

The Petroleum zone concept is inherent to Panama's historical condition as an international commercial, maritime and trade center due to its strategic geographical position. The free zone is mainly an area within which all transactions are tax free.

LNG is the new product in Panama, partially because of the expansion of the Panama Canal in 2016.

In LNG, the panorama today is:

1. AES is already operating a 600MW gas powered plant and an LNG tank farm
2. Vopak is operating Chevron's terminal
3. Chinese project Martano LNG terminal has been stopped.
4. But there are others in planning.

Cabinet Decree No. 25 of September 29, 2008, and further amendments, was enacted to fulfill those industry changes, develop the ground rules for a national Petroleum policy and drive the development of the Petroleum free zones into the next stage. Law 52 of 2008 and Law 43 of 2011 were enacted as well with the main purpose of reorganization of all topics related to energy including the Hydrocarbons among others.

Within any Petroleum Free Zone, individuals or corporations, national or foreign, may perform multiple operations under a special tax regime, as follows:

- Introduce, storage, refine, transform, manufacture, mix, purify, bottle, market, transport, transfer, pump, sell for the domestic market, export, reexport, and, in general, manage and supply crude oil, semi processed or any of its by-products; Petroleum Free Zone Users Type B are only permitted to introduce, storage, dry, mix, export and reexport crude petroleum, semi processed or any of its by-products in or from a Petroleum Free Zone.
- Build, install and operate petroleum refineries and other transformation or processing means of crude oil or semi-processed, storage tanks, oil pipelines, gas pipelines and poly-pipelines, pumping installations and pipes, buildings for offices, warehouses, or workshops and any other installations; introduce machinery, equipment, spare parts, containers, bottles, vehicles, furniture, equipment for fire or spill prevention, construct buildings for offices, warehouses, workshops for the use of the beneficiaries of the contracts to operate in the Petroleum Free Zones in any of the activities mentioned in subsection (a) hereinbefore;
- Lease, acquire or in any other manner use lands, easements, right of way and other real or personal rights in regard to bona mobilia located in the areas designated as Petroleum Free Zones;

- Build ports, piers, dry docks, shipping and unloading places for ship and airplanes, railroad stations for loading and unloading on land or granting contracts for the construction and exploitation of such works; and

- In general, all kinds of operations or activities proper or incidental to the establishment and operation of the Petroleum Free Zones for the introduction, storage, pumping, transference, distribution, marketing and/or crude refining and petroleum by products.

Panama has the potential to become a major oil and downstream products redistribution center for two main reasons: one is the existence of the Panama Canal creating a natural bunkering and marine fuels market as well as a transshipment point, and the other is the fact of being the narrowest isthmus between the Atlantic and Pacific oceans to pipeline oil from South America to the Far East. Companies already doing business in 10 petroleum free zones include Exxon/Mobil, AES, BP, Chevron/Texaco, Gencor and others.

Looking to Set Up Bunkering or LNG operations in Panama?

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City of Knowledge

The City of Knowledge (Ciudad del Saber) was designated a special Business, Scientific and Technological area in 1998.

It is a management platform that focuses on boosting the innovative and competitive capacities of the users who share the Campus. Integration, dynamic networking, and joint efforts facilitate the transference of knowledge.

This allows for an unusual concentration of innovative firms, international organizations focused on development, as well as academic and research institutions, resulting in a lively and successfully collaborative community. In order to strengthen these dynamics, City of Knowledge provides access to a series of benefits and services aimed at the needs of its users.

Benefits for businesses and organizations operating from within the City of Knowledge include:

- Tax and immigration benefits through affiliation to the City of Knowledge Foundation project.
- Telecommunications, IT and educational technology services, including an intelligent high-tech center with the required capacity for teleconferences, distance learning, fast internet connections, and other services.
- A Point of Presence -POP- with direct access to the land portion of 5 International Fiber Optic cables that go across Panama (PAC, SAC, ARCOS, Pan-American and MAYA). Infrastructure and buildings in good maintenance condition, easily adaptable to various uses.
- Technical, administrative and consulting services. Constant electricity flow (99.9%) with redundant power supply from the Panama Canal thermal plant located 300 m (328 yards) away in the Miraflores locks.
- Complementary accommodation and catering service.
- Sports and recreation facilities.
- Access to the major higher learning and scientific research centers in the country.
- Access to the Panama Canal Basin, a living laboratory for scientific research and technological innovation on advanced tropical ecosystem management.
- Centric location: next to the Panama Canal, 15 minutes from downtown Panama City, 5 minutes from Amador resort and 45 minutes from Colón city, located on the Atlantic entrance to the Panama Canal.

Establishment and Operation of Multinational Companies for the Provision of Services Related to Manufacturing Activities Regime (EMMA)

Nearshoring is also a model very much applicable in the services sectors, notably taking the form of Business Process Outsourcing (BPO) – where call centers boast multi-lingual staff as capable as a more costly workforce on US soil. Indeed, Panama has excelled in the international services market, and services overall account for around 70% of GDP.

Panama has also made notable inroads higher up the services value chain, giving the more familiar global offshore addresses of India.

The term “Nearshoring” has become a trendy name for a practice of outsourcing or moving business processes to a nearby country. It is important to understand that COVID-19 disrupted the way the supply chain was designed, whereby most companies had all their “eggs in one basket” and manufactured in one single place. Reality struck when a limited capability to produce goods in other parts of the world (nearer) to the end consumer had not been foreseen, hence making nearshoring a new solution to possible future crises.

All of this makes of Panama the ideal place to establish a Regional or Headquarters of Multinational Company, while supporting the national economy by capital investment, local consumption of goods and services, creating employments and transferring technology and knowledge. Together with the private sector, the Government of Panama approved a new Law that supports the development of this important sector, through the gathering of tax and immigration incentives under one legal framework and the creation of a Single Window Service to grant Licenses for Multinational Companies Headquarters.

In August 2007, Law 41 came into force promoting the opening of multinational corporation installations in the Republic of Panama. This area is the responsibility of the new "Licensing Commission on Multinational Enterprise Headquarters." This is chaired by the Deputy Minister of Foreign Trade. Some of its functions are establishing licensing requirements for these firms, ensuring that Panama becomes an attractive center for multinationals and creating mechanisms to facilitate monitoring. All licenses are processed by the Regional Headquarters Office at the Ministry of Industry and Commerce (MICI).

Some of the advantages for choosing Panama as a Regional Headquarters for a Multinational Company are:

- Freedom from exchange controls and monetary restrictions and use of the US\$ dollar as currency.
- Political stability and respect to the principles and application of the laws.
- International banking, insurance and financial center.
- Excellent legal framework allowing 100% foreign owned investments.
- Strategic geographical location with top container ports at both the Pacific and Atlantic oceans.
- Proximity to Colón Free Trade Zone (“CFZ”) is the largest free zone in the Americas and the second largest in the world
- Special laws for industrial parks, call centers, ecommerce and others facilitating trade and investment.
- Abundance of international transportation services and excellent telecommunications services.
- Availability of office, commercial, industrial and housing space
- Cosmopolitan city offering excellent living conditions
- Simple visas, residence and work permit requirements.
- Availability of bilingual education.
- Availability of skilled, multilingual office and staff employees

By means of Law No.159 of August 31, 2020, the Special Regime for the Establishment and Operation of Multinational Companies for the Provision of Services Related to Manufacturing Activities (EMMA, for its acronym in Spanish) is established. This regime allows a company foreign duly registered in Panama, or a Panamanian company (owned by a multinational company, affiliate or subsidiary), to establish a regional headquarters in Panama and provide manufacturing services authorized by the law to companies in its own business group. Below we highlight the most relevant aspects of the EMMA Regime.

General Considerations

I. Authorized Services

Among the services that EMMA licensed companies can perform, which in all cases must be provided only to companies of the same business group, are the following:

- Manufacture of products, machinery and equipment;
- Logistics services such as storage, deployment and distribution center for components or parts;
- Analysis, laboratories, tests or others related to the rendering of services related to manufacturing;
- Product development, research or innovation of existing products or processes;
- Assembly of products, machinery and equipment;
- Maintenance and repair of products, machinery and equipment;
- Remanufacture loaned products, machinery and equipment;
- Product conditioning;

II. Eligibility

For the granting of an EMMA License, the following parameters will be taken into account:

- The assets of the multinational company;
- The locations or affiliated companies, subsidiaries, or companies associated with the multinational operation;
- Commercial or industrial activities or operations carried out by the Multinational Company;
- The listing of shares on local or international stock exchange;
- Minimum of full-time employees and annual operating expenses incurred in Panama by the EMMA Company.

III. Limitations and Restrictions

A company holding an EMMA license can only provide the authorized services to its business group. In this sense, an EMMA company that wishes to carry out an additional authorized service/activity, which was not included in its registration license, must request a modification of its license to expand the authorized activities. On the other hand, a company cannot carry out any commercial activity other than the authorized services and activities listed above.

Tax Considerations

- I. **Income Tax** - A reduced Income Tax rate of 5% on the net taxable income was established for the services provided by companies holding an EMMA license.
- II. **Personal Income Tax** - Personnel working under the EMMA Permanent Visa will not be subject to Income Tax as long as the EMMA company that pays the salaries considers them as a deductible expense in its accounting.
- III. **Import Tax** - EMMA companies will be exempted from import tax on all types or classes of merchandise, products, equipment and other goods in general, including, but not limited to, machinery, materials, containers, raw materials, supplies, supplies and spare parts.
- IV. **Tax on the Transfer of Goods and the Provision of Services (ITBMS)** - The services provided by the EMMA company are not subject to the collection and subsequent payment of the ITBMS (VAT).
- V. **Dividend, Complementary and Branch Tax** - It is established that companies holding an EMMA License will be exempt from payment of Dividend Tax, Complementary Tax and Tax on Branches.
- VI. **Operation Notice Tax** - Companies that operate under an EMMA License will not have to obtain a Notice of Operation, and therefore will not be required to pay the Tax on Notice of Operation.
- VII. **Foreign Remittance Tax** - Companies located in the Republic of Panama that benefit from a service or act performed by an EMMA company, must retain 5% of the amount to be paid to the EMMA company.
- VIII. **Capital Gain Tax** - The gains obtained as a result of the sale of shares or securities issued by companies with an EMMA license will be subject to a capital gain tax of 2%.
- X. **Legal Stability of Investments** - Any company registered under the EMMA regime will automatically obtain legal stability in tax and municipal matters for a period of ten (10) years, which will allow it to ensure all the rights and benefits granted at the time of its registration, in accordance with Law 54/ 1998.
- XI. **Transfer Pricing Rules** - Regarding Transfer Pricing, it is established that companies holding an EMMA license will be subject to said regime, forcing them to establish their operations with related parties according to the Principle of Full Competition or "Arm's Length Principle".

Migration and Employment Considerations

I. Foreign Personnel Visa

Foreign personnel working for the EMMA company could request two immigration categories:

- EMMA Permanent Personnel Visa: Foreigners who work at the EMMA at the executive level. This visa will also cover the dependents of the visa holder. This visa is granted a period of five (5) years extendable for the same time. Employees with this type of visa may choose to obtain permanent resident status in Panama at the expiration of the five-year term. In that case, they would be subject to income tax and other contributions such as Social Security and Educational Insurance fees.
- EMMA Temporary Personnel Visa: Foreigners who provide technical services and training to the EMMA company. This visa is granted for a period of two (2) years, extendable.

II. Employee Hiring Regulations

Companies covered by the EMMA License, may hire trusted foreign workers to occupy positions of managers of high and medium levels, as well as temporary personnel required for their operation. In this sense, it is considered that these employees fall under the provisions of the Panama Labor Code regarding to companies whose transactions take effect abroad. This implies that the maximum percentage of ten percent (10%) of foreign workers is not applicable to the company, as established in said Code.

III. Applicable Employment Legislation

For the purposes of this law, the employment contracts of employees holding an EMMA Permanent or Temporary Personnel Visa will be subject to the regulations of the Labor Code. In that sense, the limit of weekly hours worked, paid vacations, thirteenth month, seniority premium, and the severance fund must be met.

International Techo Park

Innovation, entrepreneurial culture and competitiveness: three (3) ingredients of economic development that have materialized in the International Technopark of Panama (ITP), CDS's management area in charge of the entrepreneurial component.

ITP is an entrepreneurial park oriented to innovating culture and to the development of technologies, as well as to more daring projects that can create and materialize the transfer of knowledge and technology among universities, research institutions, companies, and markets. For this purpose, collaboration with other CDS departments provides ITP with an environment that sets it apart from other entrepreneurial parks.

Technopark's clearly innovating spirit delineates the kind of organization that gets incorporated to ITP and forces us to provide high-quality value services and spaces. Thus, the City of Knowledge is the ideal place for developing your project or for your company to grow. If innovation is your driving force, we are your strategic partners.

The ITP is a mixture of commercial space, offices, technical facilities and ancillary residential properties. The government is supplying 20 hectares of land with complete infrastructure and buildings worth an estimated \$50 MM.

Since the Technopark project was unveiled in August 1999, 45 companies have signed up as tenants and more than 40 have expressed interest including: Oracle, Cisco, Microsoft, and C&W. Panama is a country with a long list of advantages such as low cost of living, good quality of life, no pollution, to name a few.

The Technopark opened in January 2000 and is located on what was once the US Army Base at Fort Clayton along the Pacific side of the Panama Canal, five kilometers from downtown Panama City and a few hundred meters from the fiber optic submarine cables crossing the Panama Canal.

Other participants include the Smithsonian Tropical Research Institute (STRI), and a special Technical Cooperation Agreement has been negotiated with the European Union, through which the organization has assisted in Technopark project development, strategic plan.

The Technopark is attracting interest from a diverse group of businesses that may be divided into three separate, but interconnected areas:

- Biotechnology, Marine Resources, Reforestation, Tropical Medicine and Aquaculture.
- Information Technology, Telecommunications, Geographic Research and Data Transfer.
- Multimodal Transport, Automobile, Aviation and Marine Technology

A special legislation applies to all businesses operating within the Technopark. This legislation includes significant fiscal benefits, immigration advantages, and an established infrastructure requiring reduced startup investment.

Private Hi-Tech Parks

By means of Law 25 of 1992, the Export Processing Zones (EPZ's) were created promote foreign investment by establishing a special regime to those companies exporting goods or services produced or processed within said zones.

EPZ's can be created as Private Hi-Tech Parks to host an array of diverse companies. One important highlight is the granting of exclusive rights to EPZ developers to provide their own telecom and energy allowing the possibility of 24 hours redundancy and related services.

The most relevant incentives granted to High-Tech Parks are:

- Exemption of all taxes, contributions, duties or import fees on all machinery, equipment, furniture, vehicles, appliances, or materials necessary for the development of the project.
- Exemption of any national direct tax on capital.
- Exemption of income taxes.
- Exemption of any national direct tax on dividends and interests originated from securities issued by the company and traded in local or international markets.
- Special immigration and labor regime.





Business Organizations

Under Panamanian law, Panamanian citizens and foreigners are granted the same rights and must fulfill the same requirements in order to operate a business here. The only exceptions are in the several professional fields including medicine and law and certain retail businesses.

Legal Entities

The Panamanian legislation provides for various types of legal entities through which economic activities can be carried out in the country, such as Partnerships and Limited Liability Companies. However, the Panamanian Corporation is the most widely used business entity. It is flexible and versatile for both local and foreign investors. Panamanian Corporations (known in Spanish as “Sociedades Anónimas”) are governed by Law No. 32 of 1927, following the corporate laws of Delaware. Two or more persons of legal age, not necessarily Panamanian citizens or residents of the Republic of Panama may form a Corporation for any lawful purpose by subscribing in Panama or abroad, in any language, to the articles of incorporation. Panamanian law requires a minimum of three (3) directors and three (3) officers for Corporations. The directors may also act as officers of the company, i.e. President, Secretary and Treasurer, or other positions as desired. Directors and Officers do not need to be shareholders and they may be non-resident foreigners. Also, Directors may be legal or natural persons. Panamanian Corporations may engage in all lawful business activities, in any country, and may conduct transactions in whatever currencies they choose. The charter documents must be registered in the Public Registry of Panama (Registro Público de Panamá). Once registered, the Corporation attains full legal rights and powers to carry out its activities.

According to Panamanian tax laws, no income tax is paid for the following activities performed by Corporations:

- Invoicing the sale of goods and merchandise through a Corporation's office located in Panama, at a price greater than the one invoiced to the Corporation located in Panama for the same goods or merchandise, as long as those products or goods remain outside of the country.
- Directing, through a corporation located in Panama, transactions that will become effective, consummated or performed outside of Panama.
- Distributing dividends and expatriating profits from Panamanian Corporations or other legal entities when said income is not produced in Panama.

In addition to the tax benefits above, Corporations also have advantages regarding stockholders and directors. These benefits include:

- Stockholders may be Panamanians or foreigners or foreign legal entities.
- There is no requirement on nationality or residency for directors and officers.
- Board of Directors or Stockholders meetings can be held in any country.

The Commercial Code (Law No. 2 of 1916) offers other types of associations or partnerships:

- General Partnerships (Sociedades Colectivas) - In this association, partners' liabilities are unlimited, unless the partnership agreement states that a partner will be liable for a limited sum, which may never be lower than the contribution to the partnership.
- Simple Limited Partnerships (Sociedad en Comandita Simple) - They consist of general and limited partners. General partners share management responsibilities and are jointly and severally liable for the partnership's debts. Limited partners are liable only up to the amount of capital they have invested.
- Limited Liability Companies (Sociedades de Responsabilidad Limitada) - In this type of entity, the liability of partners is limited to the individual's capital participation.
- Joint-stock Partnerships (Sociedad en Comandita por Acciones): Similar to simple limited partnerships, but with the partners' capital represented by shares.
- Private Interest Foundations - Foundations used primarily for estate planning, which allows the transfer of assets of the deceased founder without the need to go to court.

These entities are regulated by Law No. 25 of 1995 and amendments.

These legal entities must register at the Public Registry of Panama in order to attain full legal rights and powers to carry out their activities.

The process involves filling a Public Deed, issued by a Panamanian Notary Public, through minutes prepared by a Panamanian licensed lawyer.

Partnerships

There are three different kinds of partnership that can be created in Panama

- I. Partnership or sociedad colectiva is a simple partnership where all partners have an unlimited responsibility, unlike the Limited Liability Partnership detailed below.
- II. Simple Limited Partnership or sociedad encomandita simple is a partnership comprising of General and Limited Partners. General Partners own both a share of capital and management and have unlimited liability, whereas Limited Partners are only liable for the amount of capital they have invested.
- III. Joint Stock Partnership or sociedad encomandita por acciones is a limited partnership with the shareholder's invested capital represented in issued share certificates.

Their legal structure was made for family business and was difficult for investment or commercial purposes. Today, those basic partnerships have been substituted by corporations such as anonymous societies and private interest foundations which have more flexibility and practical uses.

Joint Ventures

The concept of a joint venture is common in Panama, although there is no specific legislation governing their creation. Normally, they are structured as corporations.

Private Interest Foundations (PIFs)

A Private Interest Foundation is a combination of a will, a trust and a corporation.

Panama Foundations are more versatile and can accomplish more than Trusts plus they are anonymous. They can be created in just 2-3 days and according to Panamanian law, a Private Interest Foundation does not have an owner, but rather a founder. The foundation can then be the owner of Panamanian Corporations, and thus founders are able to control corporations without having their names placed on the legal paperwork. The following are some regulations surrounding the creation and operation of PIFs:

- A PIF should not be a profit-oriented entity, although it may be involved in commercial activities and control profit-oriented corporations
- PIFs are founded with a minimum of USD 10,000.00
- The PIFs objectives, board of founders and beneficiaries must all be stated at the time of creation
- Assets belonging to the foundation that are not located within Panama, will not be taxed at the time of transfer.

Corporations

Corporations, known in Panama as Sociedades Anónimas, may be established in Panama by both Panamanian and foreign citizens. The following are some of the conditions and regulations associated with opening a corporation:

- There is no minimum capital required to start a corporation
- One person can own all the shares
- Every corporation must be incorporated at the Public Registry
- The corporation must have a unique name
- The objectives of the corporation must be detailed
- The amount of capital invested in the corporation will also be detailed
- Shares must be issued either in bearer or nominative form
- At least three company directors must be named on the Public Deed. There is no limit to the number of Directors included. They do not have to be Panamanian Citizens. Directors can also be legal (non- human) entities.
- As well as the Directors, three officers must be appointed in the roles of President, Treasurer and Secretary. The same person may occupy multiple positions, but there should be at least two people.

Limited Liability Companies (Panama LLC's)

Panama enacted a new Law 4 of 2009 regulating Limited Liability Companies (LLCs), replacing legislation on the subject dating back to 1966.

- LLCs can engage in any lawful activity in the world.
- An LLC must be incorporated by at least 2 persons, individual or corporations, Panamanian or foreign, in person or by proxy. The subscribers of the articles of incorporation need not be partners.
- An LLC must have at least 2 partners. There are no restrictions as to the maximum number of partners.
- An LLC will be legally operational as of the date of registration of its articles at the Panama Public Registry.
- An LLC may be merged with any other legal entity of any nature, be that Panamanian or foreign, converted into any other type of legal entity and change its domicile.
- An LLC may change its domicile back to Panama.

Business Licenses

All organizations wishing to carry out commercial activities must obtain a commercial license, or “aviso de operaciones” from the Ministry of Commerce.

In order to obtain their commercial license, all organizations must comply with the following general requirements:

- The commercial license must remain in a visible place within the address of the company.
- An annual licensing fee must be paid, charged as a percentage of the share capital of the company. The minimum annual payment is USD100.00 and the maximum is USD 40,000.00.

Certain exemptions are allowed under the commercial licensing rules. Individuals and legal entities involved in the agricultural sector or handicraft businesses with less than five employees. Non-profit organizations are also exempt from commercial licenses.

Aside from the initial commercial license, some companies need to obtain further licensing in order to begin operations. This depends upon their business sector. For example, an insurance company needs a license from the Superintendence of Insurance Companies and a bank needs a license from the Superintendence of Banks. Legal advice should be obtained at the time of starting a company to ensure all correct licensing is obtained.

KYC and AML

Panama is regarded today as an important regional financial center with one of the fastest growing economies in the Western Hemisphere. Panama has taken care to improve its fiscal transparency laws and international cooperation by applying policies such as KYC to prevent money laundering. Also, to reinforce policies to prevent money laundering, Panama has strengthened its institutions by creating supervisory agencies such as the Financial Analysis Unit.

New legislation such as Law No. 23 of 2015, Law No. 129 of 2020 and others, now obligates Banks, lawyers, real estate companies and many others to comply with KYC regulations and anti-money laundering regulations to limit fraud. Panama must automatically disclose the end beneficiaries of Panamanian corporations, foundations and trusts.

KYC procedures involve all the necessary actions to ensure customers are real, assess, and monitor risks.

These client-onboarding processes help prevent and identify money laundering, terrorism financing, and other illegal corruption schemes.

KYC process includes ID card verification, face verification, document verification such as utility bills as proof of address, and biometric verification.

In case of failure to comply, heavy penalties can be applied.

VISA PROGRAM	BASIC REQUIEREMENT	BENEFITS
Self-Economic Solvency 'Person of Means'	One of these options: - \$300k CD for 3 years - Buy \$300k property - Any combination which amount \$300k	The program grants initial 2 years temporary residency and further the right to process the application for procurement of Permanent Residency, plus Right to opt for Panamanian Nationality & Passport after 5 years.
Retiree (Pensionado)	Retiree (Pensionado) Applicant must receive a Pension (private or public) of \$1,000/month (+US 250 per each dependent)	Permanent Residency, duty free auto/ household and senior citizen discounts, plus Right to opt for Panamanian Nationality & Passport after 5 years.
Reforestation Investor (Option 1)	Reforestation Investor applicant must invest 100K in a reforestation plantation field	The program grants initial 2 years temporary residency and further the right to process the application for procurement of Permanent Residency, plus Right to opt for Panamanian Nationality & Passport after 5 years.
Reforestation Investor (Option 2)	Reforestation Investor applicant must invest 350K in a reforestation plantation field	Immediate permanent residency with the option of work permit, plus Right to opt for Panamanian Nationality & Passport after 5 years.
Qualified Investor	Requires a US\$ 500K in real estate/securities or US\$ 750K Time deposit investment in local bank. Any option is required to be held for a minimum of 5 years	Grants immediate permanent residency status plus Right to opt for Panamanian Nationality & Passport after 5 years.
Friendly Country	Requires an economical asset by purchasing a real estate of no less than US\$ 200K or setting up a time deposit for US\$ 200K for 3 years in a Panamanian bank, or the professional link by having a formal labor contract with licensed company in Panama and conditioned to the procurement of a work permit issued by the Ministry of Labor. Applicant must come from one of the countries listed as "friendly country"	The program grants initial 2 years temporary residency and further the right to process the application for procurement of Permanent Residency, plus Right to opt for Panamanian Nationality & Passport after 5 years.
Employment	Applicant must be employee by a company within the 10% of 15% (technicians or executives) Panamanian payroll	The program grants initial 2 years temporary residency and work permit and further the right to process the application for procurement of Permanent Residency, plus Right to opt for Panamanian Nationality & Passport after 5 years.
Free Trade Zone Investor	Applicant that invest in free trade zone areas or call center. The investment amount vary upon the free trade area	The program grants initial 2 years temporary residency and further the right to process the application for procurement of Permanent Residency, plus Right to opt for Panamanian Nationality & Passport after 5 years.
Professional Activities	Professional activities Applicant must hold a university degree for a professional activity not restricted by the Panamanian laws	The program grants initial 2 years temporary residency and further the right to process the application for procurement of Permanent Residency, plus Right to opt for Panamanian Nationality & Passport after 5 years.



Immigration & Residence

Friendly Country

On May 20, 2021, the government of the Republic of Panama enacted the Executive Decree No. 197 of May 7th, 2021 and further the Executive Decree No. 226 of July 20, 2021, which modifies the of Friendly Country Visa Program. The new changes reduce the requirements but also the options for complying the program.

Program changes:

- The new regulation will begin as of August 7, 2021.
- The program does not longer grant immediate permanent residency status. With new modifications the applicant will initially receive a 2-year temporary residency status and further the right to opt for permanent residency, just as many other residency programs.
- The economical link with Panama can only be achieved by purchasing a real estate of no less than US\$ 200K (applicant can finance the purchase or real estate), or setting up a time deposit for US\$ 200K for 3 years in a Panamanian bank
- The professional link with Panama can only be achieved by having a formal labor contract with licensed company in Panama and conditioned to the procurement of a work permit issued by the Ministry of Labor.
- The bank account in Panama or corporations are no longer required.

**List of Countries*

United Kingdom of Great Britain & Northern Ireland, Germany, Argentina, Australia, South Korea, Austria, Brazil, Belgium, Canada, Spain, Chile, Sweden, Poland, Hungary, Greece, Portugal, Croatia, Estonia, Lithuania, Latvia, Cyprus, Malta, Serbia, Montenegro, Israel, Denmark, South Africa, New Zealand, Special Administrative Region of Hong Kong, Luxembourg, Liechtenstein, Monaco, Andorra, San Marino, Mexico, Costa Rica and Peru. Taiwan has been removed from the list of countries and Peru has been included.

Once the visa petition is submitted before the Immigration Department, a 2-year temporary residency status will be granted. Upon the finalization of such period, applicant and dependents will be entitled to process a permanent residency application. The permanent residency permit grants the applicant an additional foreign resident permanent ID Card (cédula) and the right to apply for Panamanian Nationality after 5 years.

Qualified Investor

By means of Executive Decree No. 722 of October 15, 2021 the government of the Republic of Panama created the new residency program called "Qualified Investor".

With this new program the current administration has the intention in promoting local investment in Panama by granting a convenient permanent resident status to any applicant and dependents.

Besides the traditional requirements for any residency program, the main requirement to comply will be to perform the investment in accordance to amounts and standards created, as follow:

Real Estate - The purchase of a real estate for US\$ 500K, nevertheless until October 15, 2022 the investment can be only for US\$ 300K. The purchase of this asset must have no lien or loans. The property can be purchase in a personal name or using a corporation/foundation.

Securities - Investing censed securities office for US\$ 500K through a licensed securities office for a period of no less than 5 years.

Bank - Setting up a time deposit in any licensed bank in Panama for US\$ 750K for 5 years. The deposit must be free of any financial commitment or lien.

The application can be submitted without the applicant presence, however, once is approved, the applicant and dependents must travel to Panama to finalize the process.

The immigration office jointly with the Ministry of Commerce has created a special VIP office for processing the applications.

The residency application in this program will be approved in 30 days as of its presentation.

The investment in real estate; securities investment or time deposit must be maintained for 5 years, otherwise the permanent resident status can be cancelled. Each process of investment will have parallel requirements and processing which will assist and quote separately. The immigration will demand evidence every year to verify that investment is in place.

All funds for the investment are required to come from abroad.

After 5 years of being permanent resident, applicant and dependents are entitled to apply for Panamanian citizenship.

Reforestation Investor

The Panama Reforestation Visa grants permanent residency to foreigners who invest a minimum of USD \$100K or US\$ 350K in a reforestation project approved and managed by a forestry company regulated by the Ministry of Environment of the Republic of Panama.

This investment must be maintained for at least 5 years after obtaining permanent residency.

Should the applicant plan to include his dependents (e.g. family) in the application, he must increase the investment by US\$2,000 for each dependent.

US\$100K

The applicant and dependents will receive a 2-year residency status and the right to opt for permanent residency, just as other residency programs.

US\$350K

The applicant and dependents will be granted with the permanent resident status immediately.

The investment must be maintained for 5 years, otherwise the permanent resident status will be cancelled.

**Citizens from Asia, Middle East and Africa, kindly note that Panama's Immigration Office may have your country on a List of Restricted Countries subject to Special*

RETIREE RESIDENCE PROGRAM HIGHLIGHTS:

- It is the most economical residence program
- Applicants must be aware that additional documents will be required if the pension plan is paid by a private institution.
- There are major benefits for applicants, such as:
 - Import tax exemption for a new car every 2 years
 - Import tax exemption for household goods worth up to US\$10,000
 - Multiple tax exemptions and discounts on services in Panama, including discounts on prescriptions, restaurants, air travel and entertainment.

**Citizens from Asia, Middle East and Africa, kindly note that Panama's Immigration Office may have your country on a List of Restricted Countries subject to Special Requirements.*

Retiree Pensionado Residence

Regulated by Executive Decree No. 320 of August 8th, 2008, the retiree or "pensionado" residence status requires that the applicant prove an income or pension of US\$1,000 per month and \$250 for each dependent.

Once the visa petition is filed before the Immigration Department, a permanent residency permit will be granted. The permanent residency permit grants the applicant an additional foreign resident permanent ID Card and the right to apply for Panamanian Nationality after 5 years.



Employment Visa

The employment residency status requires that the applicant must be hired by a company within the 10% or 15% (technicians) of the Panamanian payroll.

The foreigner must also obtain a work permit before the Ministry of Labor office.

At the time of approval of the Immigrant Visa, the foreigner receives a temporary residency identification card valid for two years and a work permit. Once the 2 years ends, a month before the expiration of the provisional residency Permit the petitioner should file the permanent residency application. The permanent residency permit grants the applicant an additional foreign resident permanent ID Card and the right to apply for Panamanian Nationality after 5 years (which includes the initial 2 years of temporary residency).

Citizens from Asia, Middle East and Africa, kindly note that Panama's Immigration Office may have your country on a List of Restricted Countries subject to Special Requirements. For more information, please click [here](#).



Taxation

Panama is fast becoming the jurisdiction of choice for companies seeking to relocate their business interests and regional headquarters. An efficient workforce, Spanish and English widely spoken, and a strong, transparent tax system have all contributed to this growth. The tax law finds its origins in the territorial tax system and is based on well-established principles, with income tax being levied on income arising from domestic source only.

The country operates a full imputation system: a system in which any income tax paid by a company is credited in part, or in full, to the shareholder upon a distribution of profits to avoid any double taxation of corporate profits.

Under the territorial tax system, Panama tax laws establish different considerations depending if the source of the income is generated within or outside Panamanian territory. Income produced from any source within the territory of the Republic of Panama is subject to income tax.

The income tax of Panama is levied only upon net income derived from operations within the territory of the Republic of Panama. Foreign source income, in other words income generated outside the Panamanian jurisdiction, is 100% exempted. Specifically, income derived from the following activities is not considered as produced within the territory of the Republic of Panama, and therefore is tax exempt:

The income tax of Panama is levied only upon net income derived from operations within the territory of the Republic of Panama. Foreign source income, in other words income generated outside the Panamanian jurisdiction, is 100% exempted. Specifically, income derived from the following activities is not considered as produced within the territory of the Republic of Panama, and therefore is tax exempt:

- Conducting operations in another country from an office established in Panama.
- Directing from an office established in Panama, transactions which are executed, completed or effected outside Panama.
- Distributing dividends or participations, when such are derived from income not produced within the jurisdictional territory of the Republic of Panama, including the activities producing income in parts a) and b) above.

In practical terms, a company with an office and employees based in Panama does not pay any income tax, if it only performs international operations from Panama.

Taxable income

Taxable income includes all income derived from business activities in Panama, less expenses incurred wholly and exclusively in the production of assessable income or the conservation of its source.

Taxation of dividends

Companies holding a notice of operations (which all commercial and industrial businesses must have to engage in business, unless they are specifically exempt), or otherwise carrying out business in Panama, must withhold tax at a rate of 10% on dividends distributed out of domestic profits (20% in the case of bearer shares) and 5% on dividends on foreign-source profits or export profits.

Companies located within Panama's free trade zones (except for companies within the Howard (Panama-Pacifico Special Economic Area) that require a notice of operations and licensed multinational headquarters (MHQ) companies must withhold a 5% tax on distributions.

The subsequent distribution of dividends will not be taxed if tax already has been withheld at the 10% or 5% rate.

If a corporation does not declare dividends in a particular year, it must pay a "retained earnings tax," which is a deemed dividend tax, amounting to 10% (20% in the case of bearer shares) of 40% of its after-tax income.

A 2% retained earnings tax is levied on profits distributed by a company established in a free trade zone or related to foreign-source income taxed at the 5% rate.

The 10% dividend tax (20% in the case of bearer shares) is imposed on all loans or advances granted by a company to its shareholders, regardless of the income source.

Distributions (interest) paid or credited on cumulative preferred shares issued by companies do not result in dividend tax liability if certain requirements are met.

Capital gains

Capital gains derived from the sale of securities and negotiable instruments are subject to a 10% tax; or taxpayer may opt paying a 5% of the gross sale price of securities and negotiable instruments as a single advance payment of income tax and remit that amount to the tax authorities.

Gains from the sale or transfer of real property are considered capital gains. If the transaction giving rise to the gains is part of the taxpayer's ordinary business, the gains are subject to the corporate tax rate; if the transaction is not part of the taxpayer's ordinary business activities, the gains are taxed at a reduced rate of 10%. However, in the latter case, taxpayer could opt that the purchaser withholds 3% of the gross sale price and consider this as the single advance payment of tax of the transaction.

Losses – Losses may be carried forward for five years, and a maximum of 20% of a loss may be deducted per year. The deduction of losses may not exceed 50% of taxable income of any year. Losses that are not deducted within the five-year period may not be deducted in a subsequent period. The carryback of losses is not permitted.

Rate – Tax liability is assessed at the greater of a 25% flat rate on net income or a 1.17% rate on gross taxable income; the latter is the alternative minimum tax (CAIR).

Surtax – No




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Alternative minimum tax

The CAIR is assessed at a general rate of 1.17% of gross taxable income. A taxpayer can request that the CAIR not be applied when it has net operating losses or where the effective tax rate is higher than 25% (standard rate). The authorities have discretion to grant an exemption from the CAIR for the period requested and three subsequent years. Companies whose taxable revenue is less than US\$ 1.5 million are not required to calculate the CAIR.

Foreign tax credit – Since Panama operates a territorial system of taxation, there is no unilateral foreign tax credit. A foreign tax credit may be granted, however, under Panama's tax treaties.

Incentives

Various investment incentives provide lower tax rates or exemptions. The Howard (Panama-Pacifico Special Economic Area) regime provides for tax exemptions for offshore services; gains from the sale or transfer of shares of companies established within the area; income from the transfer of goods and services between companies within the area and other free zones; income from the sale of goods or services to visitors and passengers while in transit to other countries or to vessels crossing through the Panama Canal or aircraft using authorized ports to overseas destinations; income from aviation and airport services; income from the manufacture of high-tech products; and income logistics and call center services.

In-bond manufacturing companies may import equipment and raw materials on a duty-free basis and subsequently export 100% of production, receiving a tax-free benefit. Such companies do not have to pay VAT on imports.

Based on the territoriality principle, gains derived from "re-invoicing" operations are deemed not to be derived in Panama, provided the merchandise being re-invoiced does not enter the Panamanian territory.

Licensed MHQs are exempt from income tax on services provided to nonresident entities that do not derive Panama-source income, from dividend tax and from Panamanian VAT on export services provided to nonresidents that do not generate taxable income in Panama. Foreign employees working in Panama for an MHQ are exempt from income tax on their wages and other remuneration that is not paid by the MHQ.

A variety of tax incentives are granted to encourage investment in new projects and activities relating to tourist facilities, including an exemption from income tax, property tax, import taxes and other taxes, depending on the amount of investment and location. The incentives will expire between 2016 and 2020. Incentives also are available in the Petroleum Free Trade Zones, Colon Free Trade Zone, etc.

Withholding tax

Dividends

Dividends paid to a nonresident on nominal shares are subject to a 5% or 10% withholding tax, depending on the source of the dividends; the rate is 20% for bearer shares.

Interest

Interest paid to a nonresident is subject to a 12.5% withholding tax (50% of the interest is subject to the general 25% corporate tax rate).

Royalties

Royalty payments made to a nonresident are subject to a 12.5% withholding tax (50% of the general 25% rate) if the payments benefit a Panamanian resident or if the expense has been deducted in Panama.

Technical service fees

Fees for technical services paid to a nonresident are subject to a 12.5% withholding tax (50% of the general 25% rate).

Branch remittance tax

A branch of a foreign corporation must pay 10% of its after-tax income as a dividend tax, in addition to the corporate income tax.

Other taxes on corporations

Payroll tax

In addition to social security contributions, the employer must pay educational insurance tax at a rate of 1.5% of an employee's remuneration. The employer also pays workers' compensation insurance premiums at rates ranging from 0.56% to 5.67% of the remuneration (depending on the risk associated with the occupation).

Real property tax

A real estate tax is levied on Panamanian real property, at rates ranging from 1.75% to 2.1%.

Social security

The employer must make social security contributions in an amount equal to 13.5% of the total remuneration of the employee and must withhold 9.75% on the employee's behalf and remit it to the authorities.

Stamp duty

Stamp duty generally is 0.001 per USD or fraction thereof, and is applicable to the issuance of certain documents.

Transfer tax

Transfers of real property are subject to tax at a rate of 2% of the greater of the value in the deed of transfer or the cadastral value on the date of transfer.

Other

Under Panamanian law, all commercial and industrial businesses must have a notice of operations to engage in business, unless they are specifically exempt. An annual license tax is levied at a rate of 2% of a company's net worth, up to a maximum of USD 60,000.

Companies that operate in the Colon Free Trade Zone or other free zone, including licensed MHQs and companies operating under special regimes relating to international awards for contractor selection (e.g. the Panama-Pacifico Special Economic Area) are not required to obtain a notice of operations. However, companies operating in the free zones are subject to an annual operations tax of 1% on the capital of the company (a minimum of USD 100 and a maximum of USD 50,000).

Municipalities may impose a tax on gross sales in an amount based on the type of activities carried out by a business. A business carrying on more than one business activity may be taxed on each activity. Municipal taxes, which are deductible, generally range from USD 10 to USD 2,000 per month.

Anti-Avoidance Rules

Transfer pricing

Transactions between related companies must be valued according to the arm's length principle, applying the standards in the OECD guidelines.

A transfer pricing study must include a comparative analysis of transactions carried out by independent parties, taking into account the operations, significant economic functions or activities, contractual terms, market characteristics and risks and commercial and business strategies. After making the comparative analysis, one of the five transfer pricing methods stated in Panamanian law must be selected.

An annual disclosure statement of related party transactions must be submitted to the tax authorities within six months after the end of the fiscal year.

The tax authorities can make adjustments if the arm's length principle is not followed.

Thin capitalization – No

Controlled foreign companies – No

Compliance for Corporations

Tax year

The calendar year generally is used, although the taxpayer can request a special 12-month fiscal year in certain cases.

Consolidated returns

Consolidated returns are not permitted; each company must file a separate tax return.

Filing requirements

Companies must file a tax return within 90 days after the end of the fiscal year, although a one-month extension may be obtained upon request. Three advance payments of tax are required in June, September and December, with a final payment of tax due at the time the annual return is filed. With the exception of companies operating in free zones, corporations with no Panamanian-source income are not required to file an income tax return.

Penalties

Interest and surcharges are levied on late payments. Penalties may arise from late filing of the annual income tax return.

Basis

Both residents and nonresidents are taxed on their Panama-source income.

Residence

An individual is resident in Panama if he/she is in the country for more than 183 days in a calendar year or has established permanent residence in Panama. The center of economic and family interests is a relevant factor in determining residence status.

Filing status

Joint tax returns are permitted.

Taxable income

Individuals are taxed on wages and salaries, income from the carrying on of a commercial or an agricultural business and investment income.

Capital gains

Capital gains derived from the sale of securities and negotiable instruments are subject to a 10% tax or taxpayer may opt paying a 5% of the gross sale price as a single advance payment of income tax and remit that amount to the tax authorities.

The Gains from the sale or transfer of real property are considered capital gains. If the transaction giving rise to the gains is part of the taxpayer's ordinary business, the gains are subject to the corporate tax rate; if the transaction is not part of the taxpayer's ordinary business activities, the gains are taxed at a reduced rate of 10%. However, in the latter case, the purchaser could opt to hold 3% of the higher amount of the purchase price or the ratable value of the property as an advance payment of tax.

Deductions and allowances

Individuals are entitled to a basic deduction of USD 800 (on a joint tax return) and deductions for the following: mortgage interest (up to USD 15,000 per year); donations to a nonprofit organization (up to USD 50,000 per year) and political contributions (up to USD 10,000); individual contributions to individual retirement plans up to USD 15,000 per year that do not exceed 10% of gross income; payments made for medical and hospitalization insurance; and medical expenses incurred in Panama that were not covered by insurance.

Rates

The first USD 11,000 is exempt; a 15% rate applies to income from USD 11,000 up to USD 50,000; and the rate is 25% on income exceeding USD 50,000.

Nonresident individuals hired or otherwise rendering services to Panamanian residents for periods of less than 183 days in a calendar year are subject to withholding tax at source at a rate of 12.5% of their gross income.

Other Taxes on Individuals

Capital duty – No

Stamp duty

Stamp duty generally is 0.001 per USD or fraction thereof and is applicable to the issuance of certain documents.

Real property tax

Real property located in Panama is assessed by the government and tax is levied at rates ranging from 1.75% to 2.1%.

Inheritance/estate tax

No Net wealth/net worth tax – No
Social security

An employee is required to make social security contributions in an amount equal to 9.75% of remuneration. Independent contractors and professionals also must contribute 13.5% of their fees.

a. Compliance for Individuals

Tax year – Calendar year Filing and payment
Employment income is taxed by withholding. Individuals with only one salary as their source of income are not required to file an income tax return. Individuals with more than one salary or that derive other taxable income not subject to income tax withholding must file a tax return. Individuals who are required to file a return must do so by 15 March following the end of the tax year, but this deadline may be extended by one month upon request.

Penalties

Interest and surcharges are charged on late filing and late payment of tax.

Value added tax Taxable transactions

VAT is levied on the invoice value of the sale, lease or transfer of goods or services except for intangibles

Rates

The standard rate is 7%, with special rates of 10% for accommodations and alcohol and 15% for tobacco. Exemptions apply for food, medicine, medical services and crude oil.

Registration – Registration is compulsory for businesses with monthly turnover exceeding USD 3,000 or annual turnover of USD 36,000.

Filing and payment

VAT returns must be filed monthly, except for professionals who may file quarterly returns.

Taxation Treaties

Panama-based entities are also allowed to benefit from the country's wide network of double taxation treaties as well as tax information exchange agreements

Information Exchange

Complementing FATCA and bilateral agreements, Panama passed Law No. 23 of 2015. The law created the Intendency of the Supervision and Regulation of Non-Financial Subjects and took measures to strengthen the Financial Analysis Unit.

Law No. 23 creates several government agencies to look out for money laundering, to receive reports from banks, loan, insurance and securities companies, and stock exchanges on suspicious activities and to exchange information regarding crimes. Monitored enterprises include:

- Law firms
- Pawn shops
- Real estate agencies
- Factoring agencies
- Leasing agencies
- Plastic or e-money issuing agencies
- Free Zones enterprises
- Casinos
- Construction firms
- Stock and bonds custodians
- Money transfer agencies
- Gold, silver and other bullion metal dealers
- Gems dealers
- Saving and loans societies
- Some government agencies like state banks and lotteries

All these businesses must have proper due diligence measures in order to identify the end beneficiaries and must report any suspicious activity, when not covered by professional confidentiality laws. In the case of lawyers and banks, they must also ensure the compliance of their clients on long business relationships. The law also regulates asset forfeiture of suspected money launderers. As of January 2020, the Intendency was granted autonomy and upgraded to the level of national Superintendence, by Law No. 124.

Additionally, in January 2018, Panama subscribed to the Multilateral Competent Authority Agreement for the Common Reporting Standard (CRS MCAA), of the OECD. The CRS MCAA is the prime international agreement for implementing the automatic exchange of financial account information under the Multilateral Convention on Mutual Administrative Assistance. Panama was the 98th jurisdiction that joined this agreement, which permits the country to activate bilateral exchange relationships with the other 100 signatories.

On July 7, 2020 the Ministry of Economy and Finance of the Republic of Panama by executive decree published the list of 64 reportable jurisdictions with which Panama must exchange information in 2020, concerning the 2019 fiscal period. The reportable jurisdiction list is updated and published each year.

Recent legislation, Law 254 of November 21 of 2021, includes new measures to improve international tax transparency and requires resident agents of Panamanian companies to maintain or declare that they maintain the accounting records of their companies, and requires them to declare who are the beneficial owners of the companies. In addition, all accounting documentation must be made available to audit institutions upon request. Significant penalties apply.

Laws Discussed

- Law No. 23, April 27th, 2015, Which Adopts Measures in Order to Prevent Money Laundering, the Financing of Terrorism and the Financing of the Proliferation of Weapons of Mass Destruction, and Dictates Other Provisions
- Ley 23 del 7 de abril de 2015, Que adopta medidas para prevenir el blanqueo de capitales, el financiamiento del terrorismo y el financiamiento de la proliferación de armas de destrucción masiva, y dicta otras disposiciones
- Law No. 124, January 7th, 2020, Which Creates the Superintendency of Non-Financial Subjects, and Dictates Other Provisions – Ley 124 del 7 de enero de 2020, Que Crea la Superintendencia de Sujetos no Financieros y Dicta Otras Disposiciones
- Executive decree No. 353 of July 7 of 2020, Decreto Ejecutivo No. 353 de 7 de julio de 2021 por el cual se crea la lista de países y jurisdicciones reportables de información financiera.
- OECD's Multilateral Competent Authority Agreement for the Common Reporting Standard (CRS MCAA)



Employment

All labor contracts in Panama must be in written form and there must be three original copies, signed by both the employer (legal representative of the company) and the employee. One copy should be kept by the employer, one by the employee and one by the Labor Ministry. Failure to register the contract with the Labor Ministry could result in future problems, since the law will favor the employee entirely.

Employment Features

- A labor contract may be for a definite or indefinite time period.
- A three-month probation period can be, and usually is, included in the contract. If the employee is dismissed during this period, there are fewer liabilities for the employer.
- A contract cannot last any longer than one year.
- In the case that an employee continues working once the contract is expired, without a new contract being drawn up, he/she immediately is considered to have an indefinite contract.
- In the case that a company splits into several branches, the employee's rights are not affected.

Instead, the company is then treated as a group of companies and the employee may claim against any one of them.

In the case that a foreigner is contracted, he/she must obtain a work permit from the Labor Ministry and a copy must be given to the employer. Depending on the kind of work permit, the company must ensure that they have a certain number of local (Panamanian) employees on the payroll for every foreign employee. Usually, no more than 10% of the workforce can be foreign. Certain exemptions to this rule apply.

Salaries

By means of executive decree No. 424 of December 31st of 2019, President Cortizo approved the new minimum wage that will enter effect as of January 15, 2020.

Legal basis and historical reference According to article 66 of the Constitution of the Republic of Panama, the country's labor law will establish the mechanism to adjust periodically the minimum wage. In fulfillment of this article the government created a "Minimum wage National Commission", composed by the workers union and the private sector (employers). This commission historically has never concurred with a satisfactory decision for a new minimum wage.

The arguments of each party are always extremely similar. On one hand, workers unions claim that cost of living is too expensive these days, and the other party, the private sector claims that increasing the minimum wage will affect productivity and competitively, resulting on massive layoff.

Overtime

Employers that require workers to work extra hours must first stipulate this in the contract. Even if the employee is willing, overtime hours cannot be worked unless previously agreed upon. Overtime rates vary between 25% and 75% depending on the shift in question. Nightshifts with overtime charge a higher overtime than dayshifts. Overtime is limited to nine hours per week (three hours per day). Employees who work on public holidays will be paid three times their normal hourly pay.

Highlights of the new minimum wage

1. Economical Regions

Region 1

- Panamá, Colón, San Miguelito, David, Santiago, Chitré, Aguadulce, Penonomé, Bocas del Toro, La Chorrera y Arraiján, Capipe, Chame, Anton, Nata, Las Tablas, Bugaba, Boquete, Taboga, San Carlos, Chepo, Guarare, Los Santos, Pedasi, Dolega, San Felix, Baru, Boqueron, Portobelo, Donoso, Santa Isabel, Santa Maria, Parita, Pese, Atalaya, Changuinola, Chiriqui Grande.

Region 2: Rest of the country

- For some activities the government has set the term of "National", which means that regardless of the region, the minimum wage will be a single amount.
- The minimum wage is calculated by hour
- The new minimum wage rate will also consider the following:
 - Economic activity (type of industry)
 - Professional activity (profession)
 - Size of the company (small or large)

2. The minimum wage is calculated by hour

3. The new minimum wage rate will also consider the following:

- a. Economic activity (type of industry)
- b. Professional activity (profession)
- c. Size of the company (small or large)

How calculate and employee salary?

1 Month fixed formula: \$4.33

Days	Hours
5 days a week	= 40 hrs.
5 ½ days a week	= 44 hrs.
6 days a week	= 48 hrs.

Salary per hour

Salary Per Hour x Labor Hours x 1 Month Fixed Formula = USD

Example: Region 1 - Construction Activity

2.95 x 48 hours x 4.33 = USD \$706.58

(Minimum wage)

ECONOMIC ACTIVITY	Region 1	Region 2
Agriculture, cattle farming, hunting and aquiculture (National)		
• Small Business	1.57	1.57
• Large Business (11 employees or more)	1.94	1.94
Banana industry (National)	2.41	2.41
Fishing (National)	2.20	2.20
• Artisan fishing	2.42	2.42
• Industrial		
Agro industry		
• Small Business (agriculture only) (National)	1.60	1.60
• Large Business (agriculture only) (National)	1.96	1.96
• Small Business (processing only)	2.27	1.91
• Large Business (processing only)	2.81	2.31
Quarry exploitation (National)	2.91	2.91
• Sand extraction (National)	2.97	2.97
• Mining (National)	3.21	3.21
Manufacture industries		
• Small business	2.22	1.87
• Large business	2.91	2.40
✓ Distillation, rectification and blending of alcoholic beverages	2.88	2.42
✓ Production of cement and concrete	3.17	3.02
✓ Production of cement and concrete	2.94	2.39
✓ Machinery repair and refrigeration equipment	2.91	2.91
✓ Sugar cane processing (National)		
Electricity, gas and water, Steam and air conditioning (National)	3.26	3.26
• Ice production	2.87	2.36
Water supply, sewage, waste management and sanitation activities (National)	3.26	3.26
	2.97	2.45
• Sewage	2.97	2.45
• Collection, treatment and disposal of waste	2.83	2.33
• Processing and recovery of waste materials		
Construction	3.27	3.08
• Agriculture and forest land drainage (National)	1.96	1.96
Wholesale and commission business	2.81	2.30
• Sugar cane products and sub-products sale (National)	2.81	2.81
• Fuel tanks	2.81	2.30
Retail		
• Small Business	2.27	1.90
• Large Business (11 employees or more)	2.81	2.30
• Supermarkets (5 or more branches)	2.88	2.36
• Gas stations	2.81	2.30

Free Trade Zones	3.50	2.34
• Colon Free Zone	3.20	---
Hotel		
• Small Business	2.28	1.89
• Large Business (11 employees or more)	2.75	2.25
✓ Hotel and resorts with franchise	2.88	2.36
✓ Hotel with more than 200 rooms	2.88	2.36
✓ Motels and hostels	2.88	2.36
Restaurants		
• Small Business	2.22	1.87
• Large Business (11 employees or more)	2.88	2.36
• Discotheque, bars and cantina (National)	3.17	3.17
Transportation	2.94	2.42
• Cargo transport in free trade zones or special economic zones	3.24	2.40
• Aquatic and aerial transport and complementary activities related to this type of business	2.94	2.40
• Port workers (National)	3.38	3.38
• International airports (National)	3.58	3.58
• Bus drivers (National)	3.24	3.24
• School bus drivers	2.81	2.31
• Crew member for international flights (National)	4.67	4.67
Warehousing, storage and mail	2.81	2.30
Information and Communication (National)	2.94	2.94
• Edition Activities	2.94	2.43
• Production of radio and TV programs, movie production, video, sound, movie theater and News agencies	2.94	2.42
• Telecommunication, radio and TV broadcasting (National)	3.24	3.24
• Radio local license (National)	3.17	3.17
• Cameraman (National)	3.24	3.24
Financial Activities and Insurance (National)	3.34	3.34
• Pawn shop (National)	2.92	2.92
Real estate activities	3.24	2.89
• Commercial centers (with more than 50 commercial spots) (National)	3.24	3.24
Management and back up service Activities (National)	2.91	2.91
• Rental Activities (National)	3.20	3.20
✓ Car rental	2.62	2.43
✓ Internet cafe activity	2.94	2.94
• Employment agency activity (National)	2.88	2.26
• Tour agencies, tour operators, reservation service	2.77	2.77
• Building and landscape service (National)	1.96	1.96
✓ Garden and landscape maintenance service (National)	2.77	2.77
• Office management, business support (National) Photocopy service	2.81	2.81

Professional, Scientist and technical activities (National)		
• Veterinarian activities	2.81	2.81
• Law firms, accounting and audit firms (15 employees or more) (National)	2.81	2.30
	2.94	2.94
• Law firms, accounting and audit firms (14 employees or less) (National)	2.73	2.73
	3.45	3.45
• Lawyers (National)	3.22	3.22
• Radio, newspaper and television journalists (National)	4.60	4.60
• Air transportation mechanic (National)	3.22	3.22
• Ground transportation mechanic (National)	3.58	3.58
Teaching (management staff)	2.88	2.34
Social and human health services	3.00	2.45
• Clinics and hospitals	3.30	2.47
• Health technicians (National)	3.30	3.30
Art, Entertainment and creativity (National)		
• Gambling, bets and casinos (National)	2.88	2.88
• Casino - dealers, carvers, casino managers, parlor boss, CCTV operators	3.37	3.37
	3.45	2.42
• Casino – security, cleaner, waiters, office staff, cashiers, etc. (National)	3.37	3.37
• Gymnasiums (National)	3.20	3.20
Other Services activities		
• Non profitable organizations	2.91	2.37
• Computer repair and maintenance (National)	2.77	2.27
• Domestic and personal belongings repairs and maintenance	2.75	2.75
✓ Small Business	2.22	1.86
✓ Large Business (11 employees or more)	2.77	2.34
• Residential condominium regime (Buildings with more than 10 levels) and homeowners associations (National)	3.20	3.20
• Spa`s, Beauty clinics	3.20	2.39
National or Foreign organisms' activities (National)	2.94	2.94

New salary rate for domestic employees is:
Domestic employees in Region 1 - US\$ 315.00
Domestic employees in Region 2 - US\$ 290.00



PUBLIC HOLIDAYS IN PANAMA



JAN 1
New Year's Day



JAN 9
Martyr's Day



Shrove Tuesday (Carnival)
Marks the beginning of Lent and the Carnival celebrations in Panama. The date varies each year, but always falls in February or March. In 2022, Shrove



Good Friday
The Friday before Easter Sunday is always a public holiday. The date varies each year. In 2022, Good Friday falls on April 15.



NOV 4
Flag Day



NOV 3
Panama's Independence from Colombia



JUL 1
Inauguration of new President of the Republic (every 5 years)



MAY 1
Labour Day



NOV 5
Anniversary of the call for Independence from Colombia in Colon



NOV 10
Anniversary of the first call for Independence from Spain (Los Santos)



NOV 28
Panama's Independence from Spain



DEC 8
Mother's Day



DEC 25
Christmas Day



DEC 20
Panama invasion martyr's Day

Vacations

Typical Panamanian labor contracts entitle each employee to one month of paid vacation for every 11 months of. This is generally taken as 30 consecutive days; one year after the labor contract begins. Supposing the employee decided to take their vacation time over a weekend or period with public holidays, the vacation time would still be counted as consecutive days not labored.

Supposing the employee decided to take their vacation time over a weekend or period with public holidays, the vacation time would still be counted as consecutive days not labored. It is not customary for employees to break the vacation into several parts as it is in other countries, and the vacation can be divided into no more than 2 equal parts. Vacation time cannot be exchanged for money, and the employee must take the vacation.

Other Employee Benefits

Aside from vacations and regular salary, employees on payroll are also entitled to the following benefits:

Sick Leave

All employees are entitled to pay sick leave for up to eighteen days per year. Sick days must be supported by official social security forms, signed by a doctor. Said sick leave can accumulate up to three years.

Maternity Leave

Female workers who become pregnant are entitled to 14 weeks of maternity leave, typically split 8 weeks after childbirth and six weeks before. Once an employee is pregnant, they cannot be dismissed without a court ruling, and this right is extended for one year after childbirth. The employee's salary during the leave period will be covered by social security.

Thirteen Month premium

Employees in Panama receive thirteen month's payment each year of work. The payment is divided into three payments that are made during the year as extra bonuses. The payments are made in April, August and December.

Social Security

All employees must be registered, by their employers, with the social security.

Thereafter, both the employee and the employer make monthly contributions based on the salary, which give them state health coverage.

Employment Termination

The decision to terminate an employment relationship can be taken by either the employee or the employer.

The following circumstances are considered reason for termination:

- Mutual agreement between the employee and employer
- Conclusion of employment contract or completion of specific project
- Violation of the labor code
- Employee resignation
- Employee or employer death

There are several rules and conditions surrounding the termination of an employment contract:

- If an employee wishes to resign, she/he must give at least 15 days written notice.
- If an employer wishes to terminate the employment of a temporary or domestic worker, he must give the employee 30 days written notice. (In practice, it is more common for the employee to receive the 30 day's pay, but to leave immediately, to avoid conflict.
- Three copies of the letter of resignation or termination must be taken to the Labor Ministry and stamped. One copy remains at the Ministry, one copy should be retained by the employer and the other by the employee.

Liquidation Payments

- Seniority Premium (Prima de Antigüedad)

When a labor contract is terminated, all employees are entitled to a seniority premium of one week's pay for every year worked. This payment must be made regardless of resignation or dismissal.

Fair Grounds for Dismissal

According to the Panamanian Labor Code, an employer is entitled to dismiss an employee for disciplinary or financial reasons, including:

- Employee absenteeism
- Theft
- Sexual harassment
- Failure to comply with company policies
- Intoxication in the workplace
- Violent behavior
- Damaging company property
- Incarceration of the employee
- Insufficient productivity or lack of skills described in the job interview
- Closure of the business due to an environmental disaster
- Bankruptcy or insolvency
- Reduction in demand for company's services

In the case of a fair dismissal, the employer does not have to pay any indemnity, just the Seniority Premium and any pending vacation benefits.

Unfair Grounds for Dismissal

In the case of an unfair dismissal, the employer will have to pay compensation to the employee. For every year the employee has been working in the company, they will receive 3.4 week's pay, for the first ten years. If they have been at the company for more than ten years, they receive one week's pay for every year over the tenth year. These payments are not subject to social security deductions, but income tax deductions must be made. An unfair dismissal is anything that does not fall into the grounds of a fair dismissal, as detailed above.

Labor Unions

Panamanian workers are entitled to join labor laws and also to protest against working conditions they deem unsuitable. The strongest labor union in the country is the SUNTRACS (Construction Workers Union). While their protests are occasional, they can be severely disruptive to streets and sometimes violent.

Social Security

Social Security

Panama's Social Security underwent a legal reform in 2005 that came into effect in 2006. Social Security in Panama provides workers with a degree of health protection that would sometimes be covered by a private medical insurance in other countries. While private health care is not commonly offered to workers as part of their benefits package, this is beginning to change.

Social Security is managed by the government body la Caja de Seguro Social (CSS) and provides a variety of benefits to those insured. These include health, maternity and disability benefits. All people working within the Republic of Panama, as long as they are on a company payroll, be it a public or private organization, are required by law to contribute to the Social Security system.

It is the employer's responsibility to include the worker on the payroll which is then submitted to the CSS. For those people employed on a basis other than payroll, such as "Professional Services" may voluntarily enroll in the CSS and thus receive the same benefits.

If they have an annual income over US\$9,600.00, they are also obliged to enroll in the system. Social Security regulations apply to both Panamanian and foreign citizens working in Panama. The benefits are also provided to the contributor's dependents, which include the contributor's spouse, all children under 18, any disabled children and, in some cases, their parents.

Contributions

Obligatory contributions are made by both the employer and the employee. Employer contributions are set at 11.5% until 2011, when it will increase to 12%. In 2013, it increases to 12.25%. Contributions are made each month, and are payable via a certified check to the CSS account in the Banco Nacional. Late payments are penalized.

Employee contributions are set to change in various stages since the 2005 reform. From 2008 until 2011, employees will contribute 8% of their salary and from 2011 this increases to 9% and then to 9.75% in 2013.

Self-employed workers laboring on "Professional Services" payments must contribute 11% of 52% of their annual gross income, which will increase to 12.5% in 2012 and again to 13.5% in

Salary

The amount treated as the employee's 'salary', upon which the contributions are measured includes all monetary compensation paid to the employee, including salary, bonus, commission expense payments and vacation payments

The only payments upon which Social Security payments are not made are:

- The 3 annual payments of the "13th Month"
- Indemnities paid upon severance or termination
- Seniority Payments
- Travel/Food Expenses
- Dividends

13th Month Bonus

All employers are obliged to pay a special bonus to all employees on their payroll. This payment is equal to one month's salary and is divided into three payments paid in April, August and December. On each of these payments, the employer must contribute an 10.75% of the payment and the employee must pay 7.25%.

Other Benefits

Social Security also offers protection for medical and dental care, including prescriptions and hospital care in the case of sickness or accident that prevents the contributor from working. Social Security coverage begins as soon as the person begins working, when the employer must enroll them at Social Security. In order to qualify for hospital treatment, the patient must have made at least two month's contributions.

Maternity Leave

Women covered by Social Security are entitled to all necessary medical care, include obstetrics and prenatal that they may require. In the case of women who have been contributing to the system for at least nine months before the seventh month of their pregnancy, they are also entitled to a paid maternity leave (paid for by the CSS) of 14 weeks.

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FOR MORE INFORMATION, PLEASE CONTACT US

Usually, women take 6 weeks off before the birth and 8 weeks off afterwards. The employer is obliged to employ the worker again after the maternity leave..

Occupational Hazard (Riesgo Profesional)

Each employer receives a premium that corresponds to the conceived occupational hazard faced by working in a particular industry. These premiums are established as a percentage of the salary paid and vary according to the organization's activity. For example, the professional risk or riesgo profesional for a construction worker would be a higher percentage than a shop assistant.

In the event of any accident in the workplace, the worker is entitled to the required medical treatment in order to recover correctly. If the worker dies in a workplace accident, his/her dependents will receive a pension from the CSS. If the accident results in a permanent disability, the worker would receive a certain percentage of his/her monthly salary for the rest of his/her life. This percentage is never greater than 60%.

Funerals

In the event of death of either a pensioner covered by the CSS or an active worker, the Social Security makes a fixed contribution of US\$250.00 to cover/subsidize funeral expenses.

Old-Age Pension

The payment of retiree pensions underwent a reform in 2005. Official retirement age for women is set at 57 years old and men at 62. In exceptional circumstances, women may retire at 55, and men at 60, but in these cases, the pension received would be significantly less.

Eligibility for a Social Security pension also depends on the amount paid into the system during the retiree's lifetime. This is defined by quotas, with each quota being one month's contribution.

According to the 2005 reform, the number of quotas required for a CSS pension is set to steadily increase over the next few years. Since 2008, the number of quotas required for a pension is 216 (18 years). This increases in 2013 to 240 (20 years).

In the case the contributor does not meet the requirements for the minimum number of quotas; he/she is entitled to withdraw the entirety of his contributions in one-off lump sum.

Maximum Pension

Now the CSS system offer two option of pension. The first one named Defined Subsystem in which you can find that the maximum amount paid out each month to a retiree on a CSS pension is US\$2,000.00.

In order to qualify for this amount, the contributor must have made at least 300 monthly payments (25 years) of a certain amount. The amount paid is calculated from average of the seven highest paid years of the worker's career. This will change to an average of ten years in 2010. The pension is calculated as 6% of this average amount plus an extra 1.25% for every year over the 20th year. An extra US\$20 per month is paid for the spouse and US\$10 for each child under age 18.

Payments for dependents cannot exceed US\$100 per month. The Second option named Mixed Subsystem included the Defined plus a Personal Savings Plan.

The minimum monthly pension is set at USD 175.00.

Note: Social Security reform is one of the greatest issues facing Panama today. Changes to these laws are likely under the new administration that commences on July 1, 2009.



Plaza 2000 Tower, 10th Floor, 50th Street,
Panama City, Panama
Email: inquiries@businesspanama.com
Tel: (+507) 223-6788



www.businesspanama.com



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